

Carcieri cabinet member raised red flag

Revenue director 'expressed concern' on 38 Studios

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PROVIDENCE, R.I. (WPRI) - Rhode Island's director of revenue said Friday she "was not in favor" of the 38 Studios deal in 2010 and expressed those concerns directly to then-Gov. Don Carcieri as a member of his cabinet.

"I did express it to Governor Carcieri; obviously he has a lot of people he listens to for advice," Revenue Director Rosemary Booth Gallogly said during a taping of WPRI 12's Newsmakers. "I think one of the things I mentioned was there were no rules or regulations for the issuance of these loans."

Gallogly – who began her career in the budget office in 1980 – had just been appointed the revenue director when Carcieri first floated the controversial idea of extending a taxpayer-guaranteed loan to Curt Schilling's video game company.

The R.I. Economic Development Corporation put in motion the \$75 million 38 Studios deal just days after the General Assembly created a new \$125 million loan program in June 2010. EDC Executive Director Keith Stokes, who resigned last month, later acknowledged rules and regulations for the loan program had not been written at the time the deal was finalized.

Gallogly said she expressed concern that the loan was a "large amount" of money and that 38 Studios was a startup company with no revenue, making it a risky investment.

"I have understood and learned through my career in the budget office that it isn't necessarily one perspective that a governor gets," Gallogly said. "It's a department director perspective, there are people from the outside, there are other stakeholders – so I've always respected that for every governor that I've worked with."

Gallogly said now that 38 Studios has filed for Chapter 7 bankruptcy protection it's unlikely taxpayers will be able to avoid paying back some of the loan, which could cost slightly more than \$90 million including interest.

On Thursday, Jonathan Savage, a lawyer advising Chafee, said there are investors who've expressed interest in buying 38 Studios' assets, potentially providing "tens of millions of dollars" to help offset taxpayers' losses.

"I think it's premature to be talking about what the exact value of those assets are; that's part of the process they're going through now," Gallogly said. "Obviously the state's going to work pretty hard to be sure it can take down that taxpayer obligation."

R.I. State Police Col. Steven O'Donnell confirmed to WPRI 12 on Thursday that his agency, the attorney general's office and federal authorities launched a joint criminal investigation Wednesday "into all aspects" of the 38 Studios deal.

Gallogly said law enforcement has not requested any information from her office yet.

6/9/12

Laid-off staff seek relocation expenses, pay

Bankruptcy filing reveals details of deals firm made to attract employees to Providence

By KATE BRAMSON JOURNAL STAFF WRITER

PROVIDENCE — Seven former employees of Curt Schilling's failed 38 Studios have two claims against their former employer: unpaid wages and relocation costs.

The wages equal \$40,657, but the relocation costs could equal \$303,921.

That's according to the company's bankruptcy court filings in Delaware.

Records show that 38 Studios contracted with a relocation specialist to help employees sell their houses and move closer to the Providence video-game development studio.

But seven Massachusetts houses haven't sold yet — and the estimated sale prices for four are lower than what's owed on the mortgages.

38 Studios did not own or have title to the houses when the company filed for bankruptcy. But documents say the company has "certain contractual obligations to purchase homes under the agreement" with MoveTrek Mobility of Rockland, Mass.

Schilling's company contracted with MoveTrek in September 2010, about six weeks before the Rhode Island Economic Development Corporation sold the controversial \$75-million state-backed bonds that lured Schilling's company to Providence, where employees were working to create a multiplayer online game.

State leaders held high hopes the deal would launch a video-gaming empire in Providence to lure high-wage employees to a state struggling with double-digit unemployment.

While additional details about the company's finances will emerge as the bankruptcy case proceeds, some new details Friday included:

- æ Atlas Van Lines in Saint Louis, Mo., a creditor with "unsecured, non-priority claims," is owed \$116,253 for "relocation moving." A note in the file states: "Atlas has been contacting employees via letter and demanding payment, saying that employees are responsible."

- æ While Schilling owned 82.9 percent of 38 Studios, others listed as having stock ownership included board member Douglas Macrae, 6.4 percent; board member Jim Halpin, 1.5 percent; board member Kevin Roche, 0.8 percent. The total listed amounts to 91.6 percent. It's unclear who owns the remainder of the firm.

æ Listed with no stock ownership: board members Martha Crowninshield, Thomas Zaccagnino and William Thomas, also the president; and chief financial officer Richard Wester.

Any creditors hoping to face the company in court must travel to Delaware, since 38 Studios is incorporated and filed for bankruptcy there.

Records show the company's largest creditor, the State of Rhode Island, is owed \$115.9 million. But 38 Studios owes a total of at least \$150 million to all creditors and lists assets of only \$21 million.

"Some creditors could move to get the venue transferred," said Jack Williams, a professor at Georgia State University's College of Law. "But it's really hard to win that one, because the venue [where it filed] is proper."

At this time, Rhode Island has no plans to file such a petition , said Jonathan N. Savage, a partner with Shechtman Halperin Savage LLP.

Savage has been advising Governor Chafee since 38 Studios' financial troubles became apparent last month.

But his role in the case has now changed.

The state hired him Thursday to replace the legal counsel who has represented the EDC for the last 18 months —David M. Gilden, managing partner of Partridge Snow & Hahn in Providence.

That's the latest turnover at the EDC. Keith Stokes, the former director, resigned amid negotiations with 38 Studios, and six board members have resigned or been asked by the governor not to seek reappointments.

"John Savage has been an experienced, steady hand helping guide Rhode Island through financial crises in the past," EDC spokeswoman Judy Chong said. "Given the fact that managing the aftermath of 38 Studios will be paramount — not just for the agency but for the state — and given the fact that there have been some changes on the [EDC] board, it made sense to extend his services beyond managing the bankruptcy."

It's unclear how many employees 38 Studios helped relocate through contractual agreements. Court documents indicate two other homes recently sold.

One employee, Michael Machowski, appears to have moved from his Marlboro, Mass., house. The mortgage balance is listed as \$260,790, and the current estimated sale price is listed at \$140,000. Bankruptcy records show an anticipated loss of \$120,790 if the house sold at that price, plus \$10,500 in commission and fees.

East Greenwich property records show that Michael and Melissa M. Machowski bought a home on Shady Hill Drive for \$393,000 in July 2011 — the same address listed on the unpaid wage claims sheet.

Neither Machowski could be reached for comment.

In a Chapter 7 bankruptcy, a court-appointed trustee takes into account a company's assets and liabilities, sells the assets, and distributes any income to the company's creditors. Creditors are paid back according to how they are ranked — as either secured creditors or unsecured creditors.

Because the assets of 38 Studios are so much less than what's owed its creditors, it's highly unlikely the former employees, all unsecured creditors, will be paid.

When a company's liabilities are greater than its assets, Williams said, "Everybody gets to take a haircut."

6-9-12

He's still Schilling fan despite getting stuck with \$7,500 tab Coffee supplier's initial excitement started to fade when video-game maker's check bounced

By LYNN ARDITI JOURNAL STAFF WRITER

PAWTUCKET — Ever since the Red Sox won the 2004 World Series, businessman Donald R. Barbeau has kept a photograph of Curt Schilling in his office.

So when Barbeau's company, Coffee Express, landed an account last year with Schilling's 38 Studios, he thought he'd hit a home run.

In a state of pint-sized businesses, the video-gaming company which moved to Rhode Island in April 2011 and grew to employ close to 300 people in Providence was among Coffee Express' largest accounts. That it was owned by a famous ball player only sweetened the deal.

On Thursday, Schilling's company declared bankruptcy and Coffee Express is now out more than \$7,000, according to records of the Chapter 7 bankruptcy filing in Delaware.

The unpaid bills are small change for a company where the largest creditor, Rhode Island taxpayers, is on the hook for loans and interest totaling \$115.9 million. But the collapse of 38 Studios has left more than 100 creditors — some of them small local businesses — with "unsecured non-priority" claims against 38 Studios that total more than \$32.6 million, the filings show.

"It's great that he was a famous baseball player and everything," Barbeau said Friday, "but I was interested in servicing the account and selling him coffee."

Barbeau, 62, has been in the coffee business for 27 years. His company has eight employees and its offices resemble a giant corrugated shoebox on an industrial strip. Coffee Express supplies the brewing equipment and single-cup flavored coffees plus sweeteners and creamers to businesses and restaurants, billing customers monthly.

When the company made its first deliveries to 38 Studios in Providence, Barbeau said, he mentioned the photo of Schilling in his office to one of 38 Studio's employees. "You haven't met him yet?" he recalled the employee saying. "We've got to make that happen!"

Some of the employees had just moved to Rhode Island, he said, and they asked him for advice about where to live and which communities had the best schools. The more people 38 Studios hired, he said, the more coffee his company sold. But after a while, he said, 38 Studios' monthly payments began arriving later and later. Barbeau tried to find out why but says he didn't get a very good explanation.

Then, a few weeks ago, Coffee Express received a check from 38 Studios for about \$2,000 for past-due invoices. The check bounced. "They told me they were very sorry and that they were going to issue another check," Barbeau said. But the check never arrived.

The first time Barbeau and one of his employees showed up at 38 Studios to pick up their equipment and supplies, one of the employees asked them to hold off. Then, last Friday, he said, someone from 38 Studios called and asked them to pick up the rest of the coffee and equipment.

The \$7,583.43 in unpaid bills in the court filing, he said, represents roughly three months' worth of coffee and supplies.

"I don't know that anybody can absorb a loss like that," Barbeau said. "I'm not happy about it. But it happens."

He said he feels for the workers who lost their jobs. "The money that's owed to us pales in comparison to what's going to happen to a lot of those people," he said. "Those kinds of jobs don't fall out of the trees. And now, boom! They're all out of work."

He doesn't expect to get back any of the money he's owed by Schilling's company, but he doesn't hold any grudge against the former Red Sox star.

"This man looks like he's put all the money he had into this company," he said, "and now he's in a bad situation. And I feel for that."

He never did get to meet Schilling, but he still has his photo in his office. And he plans to keep it there.

"I'm a baseball fan first and foremost."

6-12-12

Unfair to Schilling

I worked at 38 Studios during construction. I met Curt Schilling and staff, who are a great bunch of people. They were hard-working, from top executive to the maintenance personnel. They always had smiles, even though many worked all through the night. They truly believed in what they were doing, and put their hearts and souls into that company.

Instead of the state investigating 38 Studios on their financing, someone should investigate the state on when the order was given to sabotage that company, because that is exactly what it did. Governor Chafee, with the "I told you so" smile, from ear to ear, slammed the taxpayers and Curt personally. I had hoped that Curt and 38 Studios could get around these fools, get 300 or more people back to work, and create products that all of Rhode Island would be proud of.

Ronald Kidd Sr. Warwick

June 8, 2012

38 STUDIOS | BANKRUPTCY GAME OVER

U.S., R.I. investigators probe bond, loan deals

Chapter 7 filing shows company owes \$151 million, has \$21 million in assets; state may be on hook for millions

By MIKE STANTON and KATE BRAMSON JOURNAL STAFF WRITERS

PROVIDENCE — The dream of former baseball star Curt Schilling and Rhode Island politicians to build a video-game empire in Providence came to a crushing end Thursday, as 38 Studios declared bankruptcy and the Rhode Island State Police and FBI confirmed that they are investigating the company.

Four weeks of public turmoil that saw the company's troubled finances exposed and its 400 workers laid off — including 291 in Providence — ended shortly past noon, with a Chapter 7 bankruptcy filing in Delaware.

Unable to find a financial savior, Schilling's company and its three affiliates will be liquidated. 38 Studios reported in court filings that it owes \$150 million and has just \$21 million in assets — including \$12.7 million held in reserve by the state in public bond proceeds.

The largest creditor is the State of Rhode Island. Taxpayers are on the hook for \$115.9 million in principal, interest and fees, according to the filing. That stems from a controversial \$75-million loan guarantee for 38 Studios that state leaders, led by former Gov. Donald L. Carcieri and House Speaker Gordon Fox, pushed through in 2010 to lure the company from Massachusetts. The potential was 450 jobs and a company that would anchor a cluster of gaming and high-tech companies in Providence.

The reality struck Thursday.

38 Studios listed among its debts \$1.4 million in wages to its 291 former Rhode Island employees, \$10 million on the lease of its downtown Providence headquarters and \$247,000 in federal and state taxes.

Schilling, the former Bos-ton Red Sox pitcher who told The Providence Journal last week that he launched the company with dreams of becoming "Bill Gates rich," said he stands to lose \$50 million — "everything I have." Court filings show that he owned 82.9 percent of 38 Studios.

Things had grown so desperate last winter that 38 Studios turned to Rhode Island film tax credits to stay afloat. That led to \$8.5 million in loans early this year from Bank Rhode Island, secured by anticipated tax credits that had yet to be issued — and still have not been.

Those loans, revealed by The Journal Saturday, have caught the eye of law enforcement.

"The Rhode Island State Police, the Rhode Island attorney general, the U.S. Attorney and the FBI are working together investigating the activities that have recently come to light at 38 Studios," said Col. Steven G. O'Donnell, state police superintendent.

The investigation, O'Donnell said, revolves around the \$75 million in state bonds for the company, as well as the Bank RI loans of \$1.5 million in January and \$7 million in February.

"We're looking into any activity around those transactions — the use of state money and federally insured banks surrounding 38 Studios," said O'Donnell.

The federal criminal statute for bank fraud states that it is a crime to obtain money from a financial institution "by means of false or fraudulent pretenses, representations or promises."

Jim Martin, a spokesman for U.S. Attorney Peter F. Neronha, confirmed that federal prosecutors and the FBI are coordinating with the state police regarding 38 Studios. He declined further comment.

The president and CEO of Bank RI, Mark Meiklejohn, said his institution has not received a subpoena for any records regarding the loans.

"We have not yet been contacted by law enforcement," said Meiklejohn. "Certainly, we will cooperate."

Meiklejohn declined further comment on a "customer matter" when asked why Bank RI would make such potentially risky loans, which were secured by \$14.3 million in anticipated state film tax credits that have never been issued.

As additional collateral for the \$7-million loan, the bank also received a personal guaranty from Schilling, backed by a gold-coin collection valued at up to \$5.5 million.

Michael Corso, the film tax-credit broker who borrowed the \$8.5 million from Bank RI and loaned it to 38 Studios for operating capital, appears in bankruptcy papers as both a creditor and someone who was paid an unspecified amount for various services.

Corso, a Providence lawyer who brokers tax-credit deals across the country and recently attended the Cannes Film Festival in France, also is a friend of Fox and was instrumental in brokering 38 Studios' move to Providence as the company's paid lawyer.

Early in 2010, Corso helped arrange a pivotal meeting between Fox and Schilling in his downtown Providence law office. That led Fox and his ally, then House Finance Chairman Steven Costantino, to add \$75 million to a \$50 million job guarantee loan program that was approved by the legislature.

Rank-and-file legislators say they didn't know the \$75 million was ticketed for 38 Studios until summer 2010, when the Rhode Island Economic Development Corporation approved the sale of \$75 million in taxpayer-backed bonds for Schilling's company. The loan was controversial, but pushed by then-Governor Carcieri, who early in 2010 had broached the idea to Schilling at a fundraiser honoring World War II veterans at Schilling's home.

According to bankruptcy papers, 38 Studios owes Cor-so \$77,600, and also owes his Preservation Credit Fund \$11.5 million for the anticipated Rhode Island tax credits he used as security for the Bank RI loans early this year.

The bankruptcy filing also reports other financial ties with Corso in a 13-page list of contracts and leases. Among them: a July 1, 2010, engagement letter for Corso's Kings-ton Capital Group; a Nov. 7, 2011, developer services agreement for his Orb Development; a Dec. 7, 2010, personal engagement letter; and a Jan. 1, 2011, consulting agreement with Corso's Kingston Capital. The papers do not say how much he was paid, and Corso did not return calls seeking comment.

A list of checks written by 38 Studios in the last three months shows that Corso was paid \$232,800 on March 30, 2012 — one month before 38 Studios missed a \$1.12 million payment to the state that precipitated its demise. The list does not state what the payment was for.

Corso and his companies are located at 155 Chestnut St. in Providence's Jewelry District — an address shared with the Tool & Dye hair salon owned by Fox and his domestic partner, Marcus LaFond. Corso told The Journal last Friday that the hair salon is his tenant, and pays "market rent."

The remains of 38 Studios are now in the hands of Jeoffrey L. Burtch, a court-appointed trustee in Wilmington, Del., with the authority to liquidate any assets and distribute any proceeds among creditors. A meeting of creditors is scheduled for July 10.

As a secured creditor, Rhode Island is at the front of the line. But the list of creditors is long — 17 pages of single-spaced names, from Action Pest Control, in Acton, Mass., to Yellow Cab, in Cranston — and the assets few. The company does not expect unsecured creditors to receive any money.

38 Studios' bankruptcy lawyer, Laura Davis Jones of Wilmington, reported being paid \$36,000 in connection with Thursday's filing.

The only intellectual property awarded a dollar value in 38 Studios' bankruptcy filing is its Helios platform for its computer games, valued at \$3.75 million.

Jonathan Savage, a corporate and bankruptcy lawyer who has been advising Governor Chafee, said that he has been in talks with potential investors the past few weeks, and that 38 Studios' unfinished massively multiplayer online fantasy game, "Project Copernicus," could be worth "tens of millions" of dollars. In the bankruptcy filing, the value of "Copernicus" and other intellectual property is listed as "unknown."

The company's Maryland studio, 38 Studios Baltimore, formerly Big Huge Games until Schilling bought it, reported assets worth \$335,000. The Maryland affiliate produced the company's first game, "Kingdoms of Amalur: Reckoning," which was released in February.

According to court papers, the company was paid \$22 million in 2010 and 2011 in a "work-for-hire" agreement with a subsidiary through an agreement with Electronic Arts, the video-game giant that distributed the game. In addition, papers show, Electronic Arts paid \$28 million to Project Mercury, a 38 Studios affiliate that also declared bankruptcy Thursday, for a publishing agreement for January to May 2012.

A fourth subsidiary, Precision Jobs, also declared bankruptcy.

38 Studios listed \$302.29 in petty cash.

The company also owes \$1.7 million to best-selling fantasy author R.A. Salvatore, a company "visionary" who helped develop the storylines for Schilling's sword-and-sorcery games.

While Schilling didn't draw a salary as 38 Studios' founder, chairman and "executive visionary," he was paid \$16,454 in medical and dental benefits in the past year, and \$39,424 in travel expenses, bankruptcy documents show.

Unlike a Chapter 11 bankruptcy, in which a company tries to reorganize its finances, Chapter 7 means "there's ... not even a whimsical chance of reorganizing the business," said Jack Williams, a professor at Georgia State University's College of Law.

Unsecured creditors are often the people and companies who have provided goods and services to a firm, Williams said — window washers, coffee sellers and others.

"Often, the people in the least position to absorb it find themselves in a very difficult position."

With staff reports from Andy Smith, Lynn Arditi and Paul Grimaldi

Taxpayers are on the losing end

State is exploring ways to lower the millions in principal and interest due on EDC bonds

By PAUL GRIMALDI JOURNAL STAFF WRITER

Curt Schilling's star-crossed partnership with the Rhode Island Economic Development Corporation left behind bills running to the tens of millions of dollars that somebody has to pay.

In large part, that will be the state's taxpayers.

The largest bill is for the \$75 million in bonds the EDC sold in 2010 to raise money to attract 38 Studios from Maynard, Mass., to Providence. Just like any borrowing, bonds come with a face amount — in this case, that \$75 million — and interest payments.

The original principal and interest payments totaled \$112.6 million. The tab now stands at up to \$102 million, accounting for money that has been set aside from the bond proceeds to make early payments to bondholders.

That \$102 million could be further reduced if the state were to refinance the bonds, or take possession of and sell the assets of 38 Studios.

Jonathan Savage, an adviser to Governor Chafee, said the state has talked with investors interested in the assets, including intellectual property, such as the drawings, documents and computer code that went into making video games.

"The discussions we've had are in the tens of millions of dollars," he said.

Under terms of the agreement between Curt Schilling's 38 Studios and the EDC, the company was supposed to pay back the bondholders from the money it made selling video games. But with Thursday's bankruptcy filing by 38 Studios, that obligation now falls to the taxpayers — under terms of the state guarantee when the bonds were sold.

Rhode Island pledged its "moral obligation" to pay the bill if 38 Studios didn't pay back the bondholders. For the state to do that, the General Assembly would have to approve that spending.

What happens if legislators balk at appropriating the money to pay back bondholders?

The EDC added what appeared, at first, to be an extra layer of financial protection in 2010 by securing bond insurance from Assured Guaranty Municipal Corp. at a cost of about \$500,000.

"I sure as heck hope that the guarantee is valid or that it does kick in," said George Kilborn, an investment adviser and owner of Compton Capital Management. Kilborn has a client that owns \$50,000 worth of 38 Studios bonds.

For years, bond insurance was seen by governments as a way to pay lower interest rates on bonds they sold. In essence, a state or municipality pays an insurer to use its better credit rating.

The insurer also promises to pay bondholders should a city or government entity be unable. If the state asks Assured Guaranty to pay off the bondholders, the insurer will demand the state pay Assured Guaranty back and may impose conditions on the state.

"They get certain privileges ... they can demand [tax] rate increases," said Richard Lehmann, publisher of Distressed Debt Securities Newsletter. "This is how they protect themselves; they embed themselves into the workings of the government."

The state also may look for other ways to pay the bondholders.

Rosemary Booth Gallogly, director of the state Department of Revenue, said renegotiating the terms of the original bond agreement is "obviously something that we would look at."

Another would be to issue new, general obligation, bonds, backed by the full faith and credit of the state. Those bonds are considered safer investments, and thus cost the state less in interest payments.

The state would use the proceeds of the new bond sale to pay off the old bond debt, saving money.

Under the terms of the state's \$75-million loan guarantee, 38 Studios received \$47.4 million from the bond sale to develop its second video game. The EDC set aside an additional \$23.4 million in two accounts: one to pay the first two years of interest on the bonds and the other to hold as reserve in case the company missed later payments.

The remaining bond proceeds went into an account to guarantee the lease payments for 38 Studios offices in downtown Providence and to pay the costs of issuing the bonds, such as payments to bond underwriters and attorneys.

The next bond payment is due Nov. 1 and will be made out of one of the state's reserve funds.

38 Studios was expected to make a bond payment on May 1, 2013, and then to make payments each Nov. 1 and May 1 until Nov. 1, 2020, totaling about \$12.75 million per year.

If 38 Studios misses those payments, the reserve account of \$12.75 million set up from the bond proceeds could be used to make next year's payments, reducing the outstanding principal on the bonds from \$75 million to \$67.6 million, according to the EDC.

With contributions from Kate Bramson and Andy Smith.

Company owes \$150.6M to creditors, ex-workers

Rhode Island EDC, Bank of New York Mellon are owed \$115.9 million

By KATE BRAMSON and LYNN ARDITI JOURNAL STAFF WRITERS

38 Studios reports \$150.67 million in liabilities in bankruptcy filings, with more than 100 unsecured creditors whose "nonpriority" claims total \$32.62 million. Also, 291 former employees are owed more than \$1.4 million in unpaid wages, listed as "unsecured priority claims."

Unsecured creditors are paid back after secured creditors, such as the State of Rhode Island. Businesses with unsecured claims include: Blue Cross and Blue Shield of RI: \$715,399. Citizens Bank Credit Card: \$266,156. Rhode Island Convention Center Park (parking garage) Providence: \$97,185. Silverman McGovern Staffing: \$47,604. Carousel Industries of North America: \$9,742. Coffee Express LTD of Pawtucket: \$7,583.

Gourmet Heaven, Providence: \$6,996.

Dave's Fresh Marketplace, East Greenwich: \$3,510.

All four entities associated with 38 Studios that filed for bankruptcy list \$115.9 million in secured claims, listing creditors for that amount as the Rhode Island Economic Development Corporation and The Bank of New York Mellon, the trustee of the state's loan agreement.

The three other entities list what appears to be an additional \$7.4 million of unsecured liabilities. It's unclear, however, whether amounts listed to the same creditor on more than one bankruptcy filing overlap. 38 Studios Baltimore lists unpaid wage claims by 92 employees, totaling \$354,108.18. Other creditors include: Electronic Arts Inc., Redwood City, Calif.: \$3.4 million. Blue Cross and Blue Shield of RI: \$154,220. Citizens Bank Credit Card: \$56,494. U.S. Treasury, electronic federal tax payment system: \$55,000. Towson Sedan Inc. in Baltimore, Md.: \$99.60.

Shred-it Baltimore: \$100.

Creditors for whom amounts owed are not listed include: Future Press Verlag und Marketing GmbH in Germany; Go Massage in Chicago, Ill.; Sony Computer Entertainment America Inc.; Transgaming Inc. in Toronto, Canada.

Mercury Project LLC's unsecured claims — Electronic Arts: \$1.9 million.

The rise and fall of 38 Studios in Rhode Island

2010

February: Curt Schilling's 38 Studios begins talks with state officials.

March 6: Schilling and former Gov. Donald L. Carcieri meet at a charity fundraising event at Schilling's home in Medfield, Mass.

March 10: House Speaker Gordon Fox tells Keith Stokes, the Economic Development Corporation's executive director, that Schilling's company is interested in moving from Maynard, Mass., to Rhode Island; Carcieri tells Stokes the same thing.

March 16: Schilling and 38 Studios board member Tom Zaccagnino meet with Stokes and Fox in the office of Providence attorney Michael Corso, who is working for 38 Studios.

March 22: Schilling and Zaccagnino meet with Stokes, J. Michael Saul, the EDC's finance director at the time, and EDC attorney Rob Stolzman.

March 24: The Providence Journal reports Schilling is interested in moving company from Maynard, Mass., to Rhode Island.

April 6: House Finance Committee holds hearing on loan-guarantee bill that was included in the state budget. Stokes testifies.

May 19: Rep. Steven Costantino moves EDC loan-guarantee program into a separate bill.

May 25: House passes Costantino's bill.

June 11: Carcieri signs into law Assembly-approved bill authorizing EDC to guarantee up to \$125 million in economic development bonds.

June 14: EDC directors vote preliminary approval of a \$75-million loan guarantee for 38 Studios.

July 26: EDC board grants final approval of 38 Studios loan guarantee; Schilling's firm promises to create 450 jobs.

July 27: During a radio interview, gubernatorial candidate Lincoln Chafee criticizes loan guarantee and impugns Schilling's famous bloody sock.

July 28: During a radio interview, Schilling defends transaction. Sept. 18: EDC says Schilling's video-game company won't be able to use money backed by the loan guarantee to receive state tax benefits, specifically the film-tax credit.

Sept. 23: 38 Studios announces it has picked a location, One Empire Plaza, in downtown Providence. Bond-rating agencies Moody's and Standard & Poor's issue favorable ratings for the bonds underpinning the \$75-million loan guarantee.

Oct. 12: 38 Studios reveals a few details of its upcoming game, "Kingdoms of Amalur: Reckoning."

Oct. 18: Gina M. Raimondo, then a candidate for state treasurer, calls the deal "as high risk a venture as you can find." A venture capitalist, Raimondo said her colleagues in the Boston area "looked at the deal and decided to pass."

Nov. 2: Bond sale completed; 38 Studios receives first \$13-million installment. Stokes calls it "catalytic economic development."

2011

March 14: Schilling offers a glimpse of 38 Studios' first game, "Kingdoms of Amalur: Reckoning," at a conference at the Boston Convention and Exhibition Center.

April 8: 38 Studios starts moving into its new Providence headquarters.

Nov. 1: First scheduled payment made to bondholders from reserve fund raised as part of bond sale.

Nov. 8: EDC releases final installment of \$1.38 million to 38 Studios.

2012

January and February: Film-tax credit broker Michael Corso borrows \$8.5 million from Bank RI, secured by 3,200 gold coins owned by Schilling and \$14.3 million in tax credits that 38 Studios expected, but never received.

Feb 7: About 150 people are on hand to meet Schilling at a video-game store in Bellingham, Mass., at midnight when "Kingdoms of Amalur: Reckoning" goes on sale for \$59.95. The game receives positive reviews.

March 10: Sales of "Reckoning" among top five video games, according to a market research firm.

April: Chafee, summoned to a meeting at 38 Studios' downtown offices, learns the company is on the ropes. "They were tapped out," Chafee says later. "They needed further help from the state. We came out of there stunned."

May 1: 38 Studios defaults on loan by failing to make a \$1.1-million loan-guarantee payment to the EDC.

May 14: After meeting with 38 Studios executives and EDC officials, Chafee says they're reviewing "all the financials." What's at stake, he said, is "keeping 38 Studios solvent."

May 15: Chafee calls emergency EDC board meeting to discuss 38 Studios' situation.

May 16: Schilling appears at EDC meeting to ask for immediate vote on forgiving loan-fee-payment default and expediting film-tax credits. "They said they needed some sort of help from the state that day or they would have to close their doors," Chafee says later, adding state needs more financial information.

May 17: Stokes' resignation made public; Chafee searches for successor. 38 Studios delivers \$1.1 million loan-fee check to EDC, but then calls and says company has insufficient funds to cover the check.

May 18: 38 Studios makes \$1.1 million payment, curing its loan default.

May 21: EDC Deputy Director William J. Parsons oversees day-to-day operations in wake of Stokes' resignation.

May 22: 38 Studios employees among 300 applicants at video-game company job fair at Hotel Providence.

May 23: Chafee says that 38 Studios has not received outside investment or millions in tax credits, that communicating with the company has been "frustrating" and "difficult," and that game-industry insiders had describe the company's first video game as "an abject failure."

May 24: 38 Studios lays off its entire work force, including nearly 300 in Rhode Island.

May 25: State officials reach out to laid-off 38 Studios employees to help with unemployment and health-insurance issues, while video-game companies begin interviewing the displaced workers.

May 25: Chafee seeks forensic audit of 38 Studios.

May 27 and 28: In exclusive Providence Journal interviews, Schilling blames collapse of his company on state reneging on film-tax-credit promises and on "devastating" remarks Chafee made about health of 38 Studios.

May 29: Chafee denies his remarks scared off potential private investors in 38 Studios.

May 30: Chafee announces teams of state-appointed auditors have begun forensic audit of 38 Studios.

June 2: Moody's Investors Service affirms its A2 rating on the bonds sold by EDC to back 38 Studios and says a shutdown of the company would not affect how it rates the debt.

June 4: Chafee asks director of the state's Department of Business Regulation, Paul E. McGreevy, to help reorganize EDC.

June 6: 38 Studios and three affiliates file for bankruptcy to liquidate the companies.

Editorial

Scary video game

And so 38 Studios has filed for protection under the U.S. Bankruptcy Act — another chapter in what looks like a case of classic crony capitalism and remarkably bad government oversight.

Federal law-enforcement officials are looking into the matter. Quite right. In any event, the finger-pointing in this case already recalls Count Ciano's line that "success has many fathers but failure is an orphan."

It also reminds us of the crumbling interchange at Routes 6 and 10 in Providence — the sort of basic infrastructure whose replacement would do far more for the state than just about any deal with a well-connected firm that we can think of, but for which there's no money. Something to think about with the state possibly facing a plus-\$100 million bill from the 38 Studios fiasco.

Insider Lawyer Paid \$232,000 as 38 Studios Went Belly Up

Email to a friend [Permalink](#)

Friday, June 08, 2012

Dan McGowan, GoLocalProv News Editor

Just over two months before Curt Schilling's 38 Studios collapsed, the Providence lawyer whose connections to House Speaker Gordon Fox helped bring the video game company to Rhode Island was paid \$232,800 by the company, according to filings with the U.S. Bankruptcy Court of Delaware.

Records show that Michael Corso was wired the large sum of cash on March 30. By May 1, the company had defaulted on a \$1.125 million payment due to the Economic Development Corporation (EDC) and several weeks later, it was forced to lay off every single employee.

The new details, which include over \$2.3 million in payments made by the company to hundreds of vendors, consultants and other businesses since March 1, came to light after the company officially filed for bankruptcy Thursday. Records show 38 Studios LLC owes over \$150 million to more than 1,000 creditors, including \$116 million to the state.

Included among those creditors is Corso, whose Preservation Credit Fund LLC is owed more than \$11 million. Early this year, Corso, the state's top tax credit broker, pledged over \$14 million in film tax credits which hadn't yet been issued as collateral to secure over \$8 million in loans from BankRI to help keep 38 Studios afloat.

Less than six months later, the company drowned.

Now the State Police and the U.S. Attorney's office have launched an investigation into all aspects of 38 Studios including all of its business dealings.

Questionable Dealing

Aside from the unsecured millions owed to Corso, at least one questionable deal is already been linked to the lawyer.

Nappa Construction Management, a company owed by Steven Nappa, a friend of Corso and Speaker Fox, was awarded the contract to build out the interior of 38 Studios' downtown office building located at One Empire Plaza. The million dollar project was given to Nappa despite the company filing for bankruptcy just a year earlier.

In March of 2007, Corso, Nappa and former State Rep. Ray Rickman hosted a private fundraiser for then Majority Leader Fox at the Peerless Lofts in Providence. After GoLocalProv raised questions about who covered the expenses for that fundraiser earlier this week, Fox spokesman Larry Berman said the Speaker would examine his campaign finance records after the legislative session to see if any corrections need to be made. Neither Corso nor Nappa have made contributions to Fox since 2009.

Fox and former EDC director Keith Stokes met with Schilling and 38 Studios director Tom Zaccagnino in Corso's law office in March 2010 to discuss bringing the company to the Ocean State. Corso and Zaccagnino had a previous business relationship relating to tax credits dating back to 2009.

By May of that year, the General Assembly had passed legislation expanding the EDC's Job Creation Guaranty Program from \$50 million to \$125 million. Two months later, 38 Studios was awarded the entire \$75 million that came from the expansion.

Lawmakers, including Woonsocket Rep. Jon Brien (who cosponsored the bill), have consistently said they had no idea the money was essentially earmarked for only one company.

Over \$8,000 Spent on Coffee

Thursday's bankruptcy filing sheds more light on a company that was never quite able to receive all the funding it needed to remain solvent. In addition to the large wire transfer made to Corso, the company made thousands of dollars in payments in marketing companies and consulting companies in four months before it went under.

On May 1, the same day the company failed to make its payment to the EDC, the company spent over \$3,700 at Dave's Fresh Marketplace in East Greenwich. 38 Studios also paid Coffee Express Ltd in Pawtucket over \$8,000 between March 8 and May 1. On May 15, the company bounced a check to Coffee Express.

The court filing also delves into the compensation package for the company's top employees. While Schilling, who owns over 80 percent of the company, did not collect a salary, his health benefits package cost just over \$16,400 over the last year. Records show Schilling also spent \$39,424.67 on travel expenses, including over \$11,000 in April alone.

Bill Thomas, the company's chief operating officer, received a total compensation package of over \$421,000, which includes a \$130,000 payment last December to help Thomas relocate to Rhode Island. Jennifer MacLean, who served the 38 Studios' chief executive officer until April, was paid over \$253,000 in salary over the last year.

On the surface, the filings raise some question as to whether 38 Studios was appropriately managing its funds. Schilling and Governor Chafee have clashed in recent weeks after the former Red Sox ace felt Chafee had revealed too much sensitive information about the company and that he may have scared

away potential investors. Chafee, who had maintained that he was always against the deal, has dismissed those comments.

During a State House press conference, Chafee indicated he was not surprised by the bankruptcy filing and said it could turn out to be a good thing for Rhode Island. His bankruptcy expert Jonathan Savage said he believes there is a "significant chance" the state could recoup some of its investment.

But the Governor also said he wants to know more about the company's management. Asked where all of the state's money went, Chafee said, "We're going to find out."

38 Studios Insiders Have Been Connected Since May 2009

Thursday, June 07, 2012

Dan McGowan, GoLocalProv News Editor

The lawyer at the center of the deal that brought Curt Schilling's 38 Studios to Rhode Island had a business relationship with a top executive at the video game company a year before a piece of legislation that expanded the EDC's Job Creation Guaranty Program was pushed rapidly through the General Assembly.

On May 29, 2009, Michael Corso, a top tax credit broker whose relationship with House Speaker Gordon Fox helped steer 38 Studios to the Ocean State, struck a deal to purchase credits handed out for the multi-million dollar Stone House hotel project in Little Compton from the Round Pond Management Corporation, whose President was Tom Zaccagnino.

By June of that year, Zaccagnino, who was also the co-managing director at the Wellesley Advisors Corporation in Maynard, MA, had become Vice Chairman and Lead Director of 38 Studios. A month later, Haymarket Capital, an LLC with the same address as the Wellesley Advisors Corporation, was involved with the seven-figure bridge loan a group of Rhode Island investors provided to 38 Studios.

In March of 2010, Zaccagnino and Schilling met with Speaker Fox and former EDC director Keith Stokes in Corso's downtown law office. By May, the General Assembly had expanded the EDC's loan guarantee fund from \$50 million to \$125 million, the exact amount the EDC awarded to 38 Studios later that summer.

Rank-and-file lawmakers have said they were never informed that one company would receive the entire \$75 million.

The rest is history. 38 Studios released its first game, "Kingdom of Amalur: Reckoning," earlier this year and sold over 1.2 million copies. But as it burned through millions of dollars each month working on a second project, the company was unable to make a \$1.125 million payment due to the EDC in March and attempted to pass a bad check to clear the debt.

Ultimately, every employee at 38 Studios was laid off and the company appears to have collapsed. While Schilling has blamed Governor Chafee for scaring away potential investors who could have saved the company, the Governor has maintained that taxpayers deserve to know the details about a company that could leave them on the hook for nearly \$100 million if it dissolves.

Meanwhile, questions remain as to what made the state rush to essentially co-sign a \$75 million loan for a pre-revenue company. Governor Chafee has encouraged every EDC board member who voted for the 38 Studios deal to resign. Stokes also resigned.

On the legislative side, the Speaker's relationship with Corso has also come into question. The Providence Journal reported last week that Fox's partner's hair salon (which he owns a small percentage of) pays rent to Corso.

Corso has also helped Fox raise campaign funds, including hold a private fundraiser for the Speaker at the Peerless Lofts in March of 2007. After GoLocalProv inquired as to who covered the expenses that evening, Fox's spokesman Larry Berman said Fox plans to review his campaign finance reports.

"Speaker Fox has been extremely busy entering the final two weeks of the session, but he will soon be checking the campaign records from five years ago," Berman said. "If corrections are necessary to the report, he will make them."

Hasbro chief unaware of connection to Schilling

Alfred Verrecchia voted for loan guarantee as member of EDC board

By PAUL GRIMALDI JOURNAL STAFF WRITER

6/6/11

PROVIDENCE — In 2010, when the state approved a loan guarantee for Curt Schilling's 38 Studios video-game company, the vice chairman of the Rhode Island Economic Development Corporation says he was unaware that his own company, Hasbro Inc., was already doing business with Schilling.

Schilling, founder of 38 Studios, is also president and part owner of Multi-Man Publishing LLC, a Maryland company that makes board games under license from Hasbro.

Hasbro Inc.'s board chairman, Alfred J. Verrecchia, said he was unaware the toy-making giant had the licensing agreement at the time Verrecchia voted to approve a \$75-million loan guarantee for the video-game company.

That 2010 vote brought 38 Studios to Rhode Island. 38 Studios collapsed in May, just weeks after releasing its first video game, "Kingdoms of Amalur: Reckoning."

The collapse could leave Rhode Islanders to foot the bill for the loan.

Schilling's financial interest in Multi-Man in Millersville, Md., predates by several years the 2006 start of his video-game venture.

Multi-Man sells a string of war-themed board games, some of them published under a license tied to Avalon Hill.

Once produced by a standalone company known as Monarch Avalon, the games are now part of the Avalon Hill line controlled by Wizards of the Coast in Renton, Wash. Wizards of the Coast is a Hasbro subsidiary.

"I had never heard of that company before your message," Verrecchia told a reporter Monday night, referring to Multi-Man. "We have thousands of licensing agreements."

Verrecchia is a longtime executive and current chairman of the board at Hasbro, the global toy company with headquarters in Pawtucket.

He was appointed the EDC's vice chairman in January 2010.

By the spring of that year, Rhode Island officials, former EDC director Keith Stokes among them, were meeting with Schilling about financing for 38 Studios.

With Verrecchia voting in favor, the EDC board approved the loan guarantee in late July 2010.

"At the time of the decision making I had no knowledge of Multi-Man and Avalon Hill," Verrecchia told The Journal. "If I'd known that, I clearly would have asked Rob Stolzman, or somebody," about the potential conflict.

Stolzman was the EDC's lawyer at that time.

"I probably wouldn't have voted on it no matter what they said," Verrecchia asserted. "My company and my reputation are too important."

Verrecchia resigned his EDC post in January 2011.

The Journal could not reach executives at Multi-Man.

Schilling said Multi-Man is a venture inspired by his desire to preserve the old Avalon Hill board games he had grown up with, games like Squad Leader, Panzer Blitz and Gettysburg. He told The Journal last week that he knew Verrecchia prior to the creation of 38 Studios, but that there was no "coordination" between 38 Studios and Hasbro when Schilling moved his company to Rhode Island.

Schilling said he looked forward to Hasbro's planned move from Pawtucket to downtown Providence.

"Hasbro is a company that, as we grow, we want to be intimately involved with them as partners," said Schilling. "Al's a man of principle."

Brian Youse, vice president of Multi-Man, is in Normandy, France, this week, attending the dedication of the Richard Winters Leadership monument. Schilling, listed as a cohost of the ceremony marking the 68th anniversary of D-Day, wrote on his Facebook page Monday his regrets that he couldn't attend, but sending his "thoughts and prayers."

Lt. Richard Winters was the leader of the "Band of Brothers," the World War II Army unit made famous by a book and miniseries.

The monument is funded by the World War II Foundation, a nonprofit group in South Kingstown. The foundation's head, Tim Gray, is a former television sportscaster-turned-documentary filmmaker. Schilling and one of his key 38 Studios advisers, Thomas Zaccagnino, are foundation board members.

It was during a fundraiser in March 2010 for a Gray documentary at which then-Gov. Donald Carcieri said he first met Schilling. Carcieri and Stokes asserted it was that meeting that set in motion the 38 Studios loan guarantee.

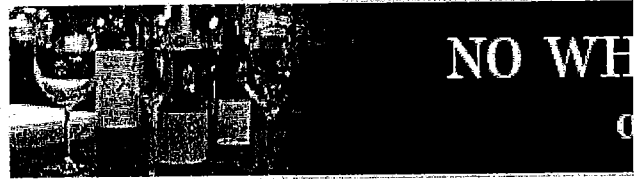
Gilbane executive Paul J. Choquette served on the EDC board along with Verrecchia.

He said he also was unaware at the time of the loan-guarantee vote that Hasbro had a connection to a Schilling company.

Choquette said Verrecchia "was strongly supportive, but he wasn't the only one" highly favorable of the guarantee

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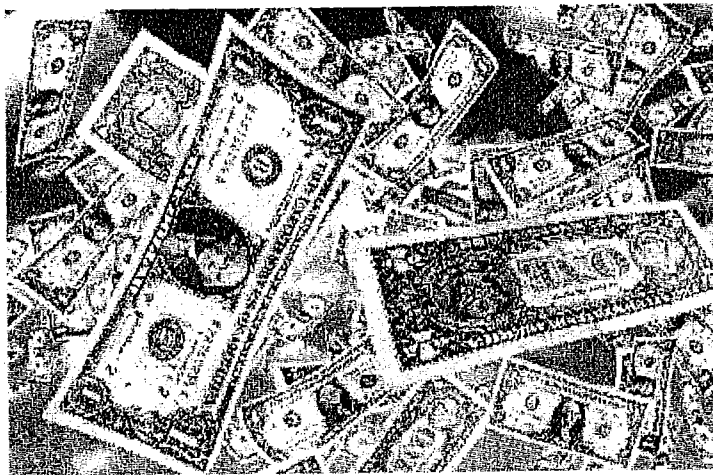
Providence Investors Gave Schilling 7-Figure Loan in 2009

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Monday, June 04, 2012

Dan McGowan, GoLocalProv News Editor

A year before Curt Schilling's 38 Studios received a \$75 million loan guarantee from the state, a group of investors led by a Providence lawyer gave the company a seven-figure loan, GoLocalProv has learned.



On July 17, 2009, Duffy & Sweeney co-founder F. Sweeney formed 38 Bridge Partners LLC to help Schilling's company with a short-term bridge loan. Sweeney said during a brief weekend interview that he did not reveal the exact amount the group loaned but said the investment was "significant" and that the group honored their agreement and paid off the loan.

By September 2010, Sweeney, who said he was told Schilling had plans to move his video game company to Providence, Rhode Island when he invested in 38 Studios, helped to negotiate the lease for the company's downtown headquarters.

While Sweeney did not reveal the names of his investors, he said the group was comprised of private citizens and did not include any elected officials or lawyer Michael Corso, who helped bring 38 Studios to Providence and was attempting to help sell off film tax credits on behalf of the company in the months before its financial woes became public.

Schilling Blames Politics

Last month, 38 Studios defaulted on a \$1.125 million payment due to the Economic Development Corporation and later attempted to pass a bad check to help cover the debt. The company ended up making the payment but was unable to pay its employees. The company found itself back in default when it was forced to lay off every employee nearly two weeks ago.

Schilling, who says he has invested the "majority of the money I've earned in my life" in the company, has Governor Lincoln Chafee helped scare away new investors by going public with 38 Studios financial problems revealing that the "Project Copernicus" game was not scheduled to be released until June 2013.

Chafee, who was opposed to the \$75 million deal during his campaign in 2010, has defended his public warning that taxpayer funds are at his risk. The Governor, who says he encouraged every EDC board member to vote for the deal to resign, has also disputed the claims that he helped drive investors away from the company.

"I don't believe [my comments] scared away investors," Chafee said during a State House press conference last week. "An investor is not going to be scared away by some Governor's comments."

Questions Unanswered

Still, questions of how much politics played a role in the original deal that brought the company to Rhode Island have gone unanswered.

In order for the EDC to award the \$75 million loan guarantee to 38 Studios, the General Assembly had to pass legislation to expand the corporation's Job Creation Guaranty Program from \$50 million to \$125 million. Legislators have continuously stated that they were unaware the entire \$75 million had been earmarked for one company.

Sweeney, who has made minimal campaign contributions to House Speaker Gordon Fox, former Governor Lincoln Chafee and former House Finance chairman Steven Costantino over the last decade, said he was not at the deal that brought the company to Rhode Island. He also said Schilling never approached him for an investment after the 2009 deal.

But Corso, who has made millions dealing in tax credits and has close ties to Fox, was involved in the deal from the very beginning. Corso hosted a meeting between Fox, former EDC director Keith Stokes, Schilling and 38 Studios director Tom Zaccagnino in March 2010.

Steven Nappa, a friend of Corso's and the owner of a construction company that filed for bankruptcy in December 2009, was awarded the contract to build out the interior to the 38 Studios headquarters at One Empire Plaza.

Coincidentally, Zaccagnino's name is associated with several LLCs that were formed in Rhode Island in May 2009 and list Sweeney as the registered agent. However Sweeney told GoLocalProv that those entities were related to a \$12 million real estate project in Little Compton and had nothing to do with 38 Studios.

Future Uncertain

But while Schilling was able to make good on paying back Sweeney and his fellow investors, it remains unclear whether taxpayers will be left on the hook for the \$75 million the state essentially co-signed for. Gaming industry experts say the state may only receive pennies on the dollar for the intellectual property it will own if the company goes bankrupt.

University of Rhode Island business professor Dr. Edward Mazze said poor management, a lack of planning, inadequate capital and the fact that it was growing too fast are among the reasons the company has fallen on hard times.

"38 Studios had the opportunity for the last eighteen months to raise additional funds after they received the state guaranteed loan and/or to enter into strategic partnerships with other firms in the industry including distribution channels," Mazze said. "As of today, 38 Studios has been unsuccessful in accomplishing these tasks. They have done a lousy job in communicating with their stakeholder groups including the State of Rhode Island. 38 Studios has become their own worst enemy."

Dan McGowan can be reached at dmcgowan@golocalprov.com.



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June 2, 2012

Section: Local

Schilling's gold pledged for rescue ; **38 Studios**

Mike STANTON; PAUL GRIMALDI

Michael Corso, a film tax-credit broker and friend of House speaker, was at center of \$8.5-million deal

PROVIDENCE -- The Rhode Island film tax-credit broker who helped bring **38 Studios** to Providence through his friendship with House Speaker Gordon D. Fox was at the center of **38 Studios'** attempts to stay afloat early this year, arranging for \$8.5 million in loans for the cash-starved video-game company.

The loans to the broker, Michael Corso, were secured by \$14.3 million in anticipated film tax credits sought by Curt Schilling's video-game company -- and the former Boston Red Sox star's collection of 3,200 gold coins worth anywhere from \$2.5 million to \$5.5 million.

According to Rhode Island financial filings, Corso borrowed the money in January and February from Bank RI, secured by the Rhode Island film tax credits, which had yet to be issued but which had received "initial certification" from the Rhode Island Film & Television Office.

The records also show that Blue Cross & Blue Shield of Rhode Island struck agreements with Corso in January to purchase the tax credits for an unspecified amount, to reduce the health insurer's state tax liability.

Corso, a leading broker of Rhode Island tax credits, stood to make a profit by selling the film credits to Blue Cross once they were issued by the state.

But when **38 Studios'** cash crunch led the company to miss a \$1.12- million payment due the state on May 1, things fell apart. The state balked at issuing the tax credits, precipitating a financial meltdown of **38 Studios** that has resulted in the layoffs of 400 people, including 286 in Providence, and threatening to leave taxpayers on the hook for repaying the \$75 million in state-backed bonds. With interest, the tab could top \$100 million.

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Schilling, in an exclusive interview with The Providence Journal last weekend, accused the state of reneging on a deal to issue the tax credits, and sending 38 Studios into a possible death spiral as it ran out of the bridge cash he says he needed to survive until more permanent private financing came through.

Corso, who says he now stands to lose most of the money he borrowed, told The Journal Friday that he might sue the state, since he and 38 Studios say the company was legally entitled to the tax credits for legitimate production costs in Rhode Island.

"I'm exposed 100 percent, minus the value of the coins," said Corso.

In addition to his role arranging tax credits, Corso played a key behind-the-scenes role in 38 Studios moving from Massachusetts to Rhode Island.

Early in 2010, Corso set up a key meeting at his Providence office between Schilling and Fox, the House speaker.

Shortly after that meeting, the House leadership added \$75 million to a state job-guarantee loan program -- the amount of capital that 38 Studios estimated it needed to move to Rhode Island and continue developing a potentially lucrative but risky fantasy role-playing game, dubbed Project Copernicus.

Rank-and-file legislators, some of whom questioned the size of the loan-guarantee program, were not aware that \$75 million of the \$125 million was intended for 38 Studios.

Schilling told The Journal on Sunday that Corso was "a friend of the company." As a Rhode Islander, Corso helped introduce 38 Studios to people in Rhode Island, and worked as a paid lawyer for the company, in addition to any commissions he stood to earn brokering film tax credits.

Corso, who calls himself a friend of Fox's for 20 years, also is the speaker's landlord. Corso runs his tax-credit business from 155 Chestnut St., in downtown Providence's Jewelry District. The building is also the home of Tool & Dye, a hair salon run by Fox's romantic partner, Marcus LaFond, and co-owned by LaFond and Fox.

Corso says they pay him "market rent" for the salon, which he declined to specify. He said he and Fox have had no other business dealings. Corso, who has helped write tax-credit legislation, says he stopped donating to Fox's campaigns and holding political fundraisers for him in 2009, for appearance's sake.

Fox has declined to talk to The Journal in recent weeks about his role in the 38 Studios deal or his friendship with Corso.

Rhode Island public financial filings reviewed by The Journal Friday show that two entities run by Corso

pledged the anticipated film tax credits to Bank RI as collateral for the loan. Corso said he advanced the loan money to **38 Studios**.

Corso said he shouldered all of the risk for the initial \$1.5- million loan, in January, which was secured by anticipated tax credits totaling \$2.3 million. For the second loan, \$7 million in February, Corso says he pledged \$12 million in anticipated 2012 tax credits that **38 Studios** was seeking.

But he said Bank RI wanted additional collateral. So Schilling gave the bank a personal guaranty on Jan. 27, according to state records. That was further secured, on Feb. 8, by another agreement by Schilling to pledge 3,200 gold coins kept with Coins 'N Things, in Bridgewater, Mass.

The coins were posted as collateral, according to records filed with the Massachusetts Secretary of State's office, just days after **38 Studios** released its first video game, "Kingdoms of Amalur: Reckoning."

The 1-ounce coins include 500 South African Krugerrands, 200 Canadian Maple Leafs and 900 American Eagles.

Those coins were worth about \$5.5 million, based on a trading value on that date of \$1,721.85 per ounce, according to Bloomberg News.

Corso says he believes they were valued at \$2.5 million.

David M. Gilden, the lawyer at Partridge Snow & Hahn in Providence who represents the EDC, was involved in discussions with **38 Studios** about its request for the state to guarantee that the tax credits would be issued if the video-game company made its missed payment. Corso says Gilden also represented Bank Rhode Island in the loans to Corso.

The Massachusetts state filings indicate only that Theodore B. Howell, a lawyer with Partridge Snow & Hahn, is the contact for the transaction that Schilling conducted using his gold as the loan collateral.

Gilden, the law firm's managing partner, said Bank Rhode Island, one of the law firm's ongoing clients, asked the firm in January to represent the bank as it made a loan to Kingston Capital. Gilden said he knew that was Corso's entity and that a commitment letter from the bank to Kingston Capital noted that Kingston was borrowing funds to purchase tax credits from **38 Studios**.

Gilden said he knew in January that Corso intended to loan the money he would get from the bank to **38 Studios**.

Because Gilden represents the EDC, Gilden said his firm did a "conflicts check" and determined the firm could

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represent the bank because the loan was going to Kingston Capital, yet his partner, Howell, would represent the bank in the transaction. Gilden continued to receive e-mails about the transaction, which he says he purposely didn't read because of an "ethical wall" the firm put up, but on the last day of the transaction, when Howell was away from the office, he asked Gilden to get a document signed.

Gilden said he had already learned -- in November or December -- that **38 Studios** might apply for state film tax credits and would be seeking to obtain additional financing. In early December, Gilden says he told Governor Chafee's then chief of staff, Patrick A. Rogers, that **38 Studios** was considering seeking the credits. Gilden said he had no concerns at the time that **38 Studios** was in trouble financially.

"At that point, we had no reason to think they would not get additional funding," he said.

As the loan process dragged on, **38 Studios** missed a payment to the Rhode Island Economic Development Corporation tied to the \$75- million loan guarantee that drew the company to Rhode Island from Massachusetts.

When **38 Studios** missed that May 1 payment of \$1.12 million, the state balked at issuing the credits that Schilling and Corso were using to back the bank loan.

Schilling says the state reneged on a deal to allow **38 Studios** to defer the \$1.12-million payment. Schilling said he has committed \$50 million of his baseball fortune to the venture -- \$38 million in cash plus \$12 million in personal loan guarantees -- and is "tapped out."

So he struck on a plan to borrow the \$1.12 million, pay the state, and then become eligible for the tax credits.

But Blue Cross, which had originally agreed to purchase the tax credits from Corso once approved, balked at a bridge loan, Corso said.

A Blue Cross spokeswoman said in May that an unidentified broker approached the insurer in the week before **38 Studios** paid the \$1.12 million to the state, offering to sell Blue Cross tax credits from **38 Studios**. She said that Blue Cross declined -- but did not mention the insurer's January agreements with Corso.

So Corso says he turned to a company he knows from the tax- credit business, Row 1 Productions LLC in Beverly Hills, Calif., to pay that \$1.12 million.

Rhode Island financial documents show **38 Studios** put up another \$6.5 million in anticipated 2011 state film tax credits, as collateral for Row 1.

On May 18, **38 Studios** wired \$1,025,000 to the EDC and presented a \$100,000 check to the state, curing the video-game maker's default on its loan-guarantee agreement with the EDC. But citing other objections, the state

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has still balked at issuing the tax credits. Governor Chafee opposes the move, saying he doesn't want to "throw good money after bad."

The Providence Journal was unable Friday to reach Row 1's principal.

Corso says he has no financial stake in Row 1. He says he didn't loan any more money because he had already taken on a great deal of risk in the \$8.5 million in loans earlier this year.

"I couldn't take on additional risk," he said.

Michael Corso, a broker in film tax credits, tried to put together a complicated deal to finance Curt Schilling's 38 Studios. The Providence Journal / Gretchen Ertl pgrimald@providencejournal.com (401) 277-7356 mstan-
ton@providencejournal.com (401) 277-7724

---- INDEX REFERENCES ----

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June 1, 2012

Section: Local

Gamers saw little of Schilling's project ; 38 Studios

Andy Smith

PROVIDENCE -- Alexander Sliwinski, news editor of the influential video-game site Joystiq, said the gaming world has never seen much evidence that Curt Schilling's dream project, a multi-player online game, was near completion.

By now, he said, there should have been more than just a few screenshots of the game, and they've only been available since 38 Studios' financial crisis became public.

There's been no evidence of any game play, no magazine stories, no visits to the studio by game journalists.

"They didn't follow the standard marketing progress of anyone else in the industry," he said in an interview.

Sliwinski said that since 2006, when Schilling started the company, the only product it brought to market, a game called "Kingdoms of Amalur: Reckoning," was essentially purchased when Schilling bought Maryland company Big Huge Games in 2009.

Sliwinski said the original \$75-million state loan guarantee that brought Schilling's company, 38 Studios, to Providence made no sense.

"If Rhode Island hadn't stepped in when they did, this likely would have played out in 2010 up in Maynard," he said. Maynard, Mass., was the headquarters of 38 Studios before the company came to Rhode Island.

Sliwinski said, if the figure Governor Chafee has cited for 38 Studios' "burn rate" -- how much it spends each month -- is really \$4 million, and the company's release date for its multi-player online game is June 2013, that would mean the company would need at least \$48 million before the game could get to market. Sliwinski thinks

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that figure could be even higher.

"I would say from \$50 to \$100 million would not be an absurd number," he said.

He disagrees with Chafee that "Reckoning" was a failure. Schilling said it sold 1.3 million copies since it was released in February. Electronic Arts, the California publisher of "Reckoning," confirmed the game sold in excess of a million units.

"That's very good for a new intellectual property," Sliwinski said.

In an interview with The Providence Journal on Sunday, Schilling said 38 Studios was close to a deal with a different publisher for a sequel to "Reckoning."

Sliwinski said a sequel would be valuable.

"The standard in the video-game industry is that a sequel historically does much better than the original," he said.

Sliwinski said he doesn't know why a new publisher would step in at this point.

"I have a hard time believing any publisher would do that," he said. "Why do that when you can buy everything for pennies on the dollar? Why save a company with no employees? Just wait until it's collapsed." as-mith@providencejournal.com (401) 277-7262

---- INDEX REFERENCES ----

COMPANY: BIG HUGE GAMES INC; ELECTRONIC ARTS INC; PROVIDENCE JOURNAL CO (THE)

INDUSTRY: (Application Software (1AP32); Consumer Electronics (1CO61); Consumer Products & Services (1CO62); Consumer Video Products (1CO02); Electronic Interactive Entertainment (1EL14); Electronics (1EL16); Entertainment (1EN08); Entertainment Multimedia Titles (1EN60); Games Software (1GA28); Home, Personal & Consumer Software (1HO01); I.T. (1IT96); PC, Video & Online Games (1PC44); Software (1SO30); Software Products (1SO56))

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June 1, 2012

Section: Local

Legislators didn't have all facts on 38 Studios ; Politics

tom mooney

As fallout from the 38 Studios affair continues to rain on Rhode Island, the finger-pointing and questions as to who knew what and when are springing up like dandelions.

In a May 23 letter to the editor in The Westerly Sun, Harriet Lloyd, executive director of the Rhode Island Statewide Coalition, said it was "disingenuous" for South County legislators, Sen. Dennis Algiere and Rep. Donna Walsh, to voice dismay over the \$75-million loan guarantee that went to Curt Schilling's company, since they voted for the approving legislation in 2010.

"The source of the 38 Studios disaster," Lloyd wrote, "lies in 2010 legislation they ... supported that enabled the EDC to spend taxpayer monies of monumental proportions without approval of voters."

Her remark provoked a rebuttal letter the following day from Algiere, Walsh and three other Westerly and Charlestown lawmakers -- Representatives Samuel A. Azzinaro and Brian P. Kennedy, and Sen. Francis T. Maher. Together, the Democrat and Republican lawmakers wrote: "The legislature was never given the opportunity to debate or vote on loaning \$75 million to 38 Studios."

In light of some of the vitriolic reactions to the company's now- precarious existence, we thought it timely to look at the accuracy of the legislators' statement.

Here are the facts:

As The Providence Journal chronicled in a Nov. 7, 2010, story, the 38 Studios deal was cloaked in secrecy from the start.

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In March of that year, then-Gov. Donald Carcieri attended a fundraiser for a World War II documentary at **Schilling's** home in Medfield, Mass. During that event, the two talked business. Carcieri suggested that the former Red Sox pitcher bring his new start-up video game company to Providence.

During the next several weeks, **Schilling** and his team met privately with Carcieri's top aides; Keith Stokes, the newly appointed executive director of the Economic Development Corporation; and House Speaker Gordon D. Fox. **Schilling** was interested in what funding the EDC could offer him.

What emerged from those discussions was an arrangement that would bring the expanding company and the promise of 450 jobs to Rhode Island in return for the state's guarantee of \$75 million in loans to the company.

During the 2010 legislative session, with banks still not lending money in the aftermath of the housing collapse, Smith Hill lawmakers already were receptive to an EDC proposal for a \$50-million revolving loan guarantee fund for small businesses.

But what House leaders attached to the state supplemental budget that April for lawmaker consideration -- and what eventually came before them as a separate bill -- was a \$125-million proposal. It had a name: the Job Creation Guaranty Program.

The added \$75 million in loan guarantees was precisely the amount **Schilling** had told state leaders in private that he needed in capital, Stokes told The Journal in 2010. The name of the company was not included in the legislation and rank-and-file members in the House or Senate were not told that **38 Studios** or any other specific company would be getting a big chunk of the pot, several lawmakers told the newspaper.

In their letter to The Sun last week, **Algiere** and his colleagues said: "When we voted in favor of the Job Creation Guaranty program, nothing in the budget article or in the act that passed specifically referenced **38 Studios**. Our 'yea' votes were cast with the understanding that many small businesses around the state would have access to the \$125 million loan program."

In a telephone interview, **Algiere** raised a good question: Would the loan program actually have passed unanimously in the Senate and with only one opponent in the House "if we knew \$75 million could be going to one entity? I doubt it. That's a high-risk, start-up company."

The legislation's lone dissenter, Rep. Robert Watson, R-East Greenwich, said in a phone interview that he smelled a "scandal waiting to happen" behind all the secrecy.

"**38 Studios** was never mentioned on the floor as a subject or even a concept," Watson said, "but I got up and railed against [the legislation] just as a generic principle because I feared there was something afoot. Programs that start out as \$50 million and balloon to \$125 million in a week's notice -- well, there is something up. Someone was going to get it."

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A videotape of the hearing on the bill supports Watson's contention.

Our ruling

Algiere and his fellow legislators from Westerly and Charlestown say the legislature was never given the opportunity to debate or vote on loaning \$75 million to 38 Studios.

While the legislature overwhelmingly approved the \$125-million loan guarantee fund, it's clear from news stories at the time and afterward, and from the tape of the debate, that rank-and-file legislators did not know when they voted that \$75 million was meant for 38 Studios, even if some of their leaders did.

Whether they should have been more skeptical of the loan guarantee fund is another question.

We rule the legislators' statement True.

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Dennis Algiere

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"The legislature

was never given the opportunity to debate or vote on loaning \$75 million to

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--- INDEX REFERENCES ---

COMPANY: JOHOR CORP; PROVIDENCE JOURNAL CO (THE); TWITTER INC

NEWS SUBJECT: (Economic Policy & Policymakers (1EC69); Economics & Trade (1EC26); Government (1GO80); Legislation (1LE97); Public Finance (1PU60))

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June 1, 2012

BRIEF: Records show **Schilling** put up \$5 million in gold to get loan
 Paul Grimaldi
 The Providence Journal, R.I.

June 01--PROVIDENCE, R.I. -- Records filed with the Massachusetts Secretary of State's office show Curt **Schilling** in February posted 3,200 gold coins as collateral for a loan from Bank Rhode Island.

The coins -- worth about \$5 million currently -- were used as loan collateral the day after 38 Studios released its first videogame, "Kingdoms of Amalur: Reckoning." The filings do not indicate either the size of the loan or its intended use.

The 1-ounce coins include South African Krugerrands, Canadian Maple Leafs and American Eagles. They were stored at Coins N' Things in Bridgewater, Mass., according to the Massachusetts documents.

The original version of this story was posted at 10:22 a.m.

More news on 38 Studios

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INDUSTRY: (Banking (1BA20); Commercial Banking Services (1CO19); Financial Services (1FI37); Gold (1GO03); Gold & Precious Metals (1GO02); Loans (1LO12); Metals & Mining (1ME07); Natural Resources (1NA60); Retail Banking Services (1RE38))

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May 31, 2012

Section: Local

Auditors reviewing firm's status ; 38 Studios

Andy Smith

Stephen Lane, chairman and chief venture officer of Ximedica LLC, is latest to resign from Economic Development Corporation

PROVIDENCE -- Governor Chafee announced Wednesday that teams of auditors appointed by the state had begun a forensic audit of 38 Studios, Curt Schilling's financially troubled video-game company.

Chafee also announced the resignation of Stephen Lane, chairman and chief venture officer of Ximedica LLC, from the board of the state Economic Development Corporation. Lane had voted in favor of the controversial \$75-million loan guarantee that lured 38 Studios to Rhode Island in 2010.

Chafee said examiners from Deloitte Financial Advisory Services LLP and Braver PC went to 38 Studios, at One Empire Plaza in downtown Providence, Wednesday afternoon to begin the audit.

He said it's still undetermined how much the audit will cost or how long it will take. Under the state's agreement with 38 Studios, he said, it is 38 Studios' responsibility to pay for the audit.

"There's a lot of questions still out there, and that's why you do an audit," Chafee said. "Let's find the true information and make sure we're dealing with facts, rather than guesses ... how they spent their money, what went in, what money went out."

Forensic audits dig deeper into the financial records than ordinary audits, and they are often used to uncover evidence that can be used in court.

Chafee said he has not spoken to Schilling since Tuesday, when The Providence Journal published an interview

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with Schilling in which the former Red Sox star blamed many of his company's problems on broken promises from the state.

Schilling's company laid off all its workers -- 286 in Rhode Island and another 100 at its Maryland subsidiary -- on May 24.

"The truth is, it's hard to get straight answers from [38 Studios]," Chafee said. "I find it frustrating even when we have these communications, we don't get square answers."

The state contends that the company is in default of its agreement with Rhode Island because it failed to inform the state of the layoffs.

On Sunday, 38 Studios executives said they had told the state in writing about the layoffs within 24 hours.

Chafee said the forensic audit would "absolutely" look at how much money Schilling invested in the company, and whether he took any out.

On Sunday, Schilling told The Journal he had put \$50 million into 38 Studios: \$38 million in cash and \$12 million in personal loan guarantees and had "never taken a penny" out.

Chafee said the hope is still that an outside investor could step in to save 38 Studios, but he sounded highly pessimistic.

From his remarks, it appears unlikely 38 Studios will obtain the \$8.7 million in 2011 film tax credits that it was hoping to receive as a "bridge" until additional private financing could be found.

"Bridges have to lead to some strong financial ground; that's what bridges are for," Chafee said.

At the Economic Development Corporation, which crafted the deal that brought Schilling to Rhode Island, Chafee has been working to remove all the board members who voted for the plan.

Asked if he had requested Lane's resignation, Chafee said the two held "conversations" on the subject. Lane could not be reached for comment Wednesday night.

After Lane's resignation, only one board member remains who voted in favor of the 38 Studios deal, Rhode Island AFL-CIO president George Nee. Chafee requested that Nee step down from the board. Nee has refused.

"I've had conversations with those who voted for it," Chafee said. "The issue of a conflict going forward was an

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important one.... I think we need a fresh start on the EDC."

Other board members to resign this month are E.L. "Lynn" Singleton, president of the Providence Performing Arts Center, and Chafee's own appointee, CVS Caremark executive Helena Foulkes.

Foulkes was not on the board when the 38 Studios deal was under consideration.

Dr. Timothy Babineau, president of Rhode Island and Miriam Hospitals, requested not to be reappointed. He, like Nee, was serving on the board even though his term had expired.

Chafee said Daniel Sullivan Jr., president and CEO of Collette Vacations, also asked not to serve again on the board. His term had expired as well.

Keith Stokes, executive director of the EDC, resigned May 16.

Chafee said he hopes to announce new EDC appointments soon, but would not reveal his nominations Wednesday.

Chafee has blamed 38 Studios' financial problems on the "failure" of its first game release, "Kingdoms of Amalur: Reckoning."

Electronic Arts, the California publisher for "Reckoning," said the game has sold more than a million copies. Schilling said it has sold about 1.3 million copies since its release in February.

"Reckoning" was produced by Big Huge Games, the Maryland game company Schilling bought in 2009. Schilling told The Journal that he had been in negotiations with a publisher for a sequel. With staff reports by Kate Bramson asmith@providencejournal.com (401) 277-7485

---- INDEX REFERENCES ----

COMPANY: CVS CAREMARK CORP; DELOITTE FINANCIAL ADVISORY SERVICES LLP; ELECTRONIC ARTS INC; JOHOR CORP; XIMEDICA LLC; XIMEDICA LLC

NEWS SUBJECT: (Board of Directors (1BO47); Business Management (1BU42); Corporate Events (1CR05); Corporate Groups & Ownership (1XO09); Executive Personnel Changes (1EX23); HR & Labor Management (1HR87))

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Language: EN

OTHER INDEXING: (Chafee; Curt Schilling; Daniel Sullivan Jr.; E.L. Singleton; George Nee; Helena Foulkes; Keith Stokes; Miriam Hospitals; Stephen Lane; Timothy Babineau)

COMPANY TERMS: XIMEDICA LLC

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May 30, 2012

Section: Local

Chafee denies his words scared away investors

Kate Bramson; KATHERINE GREGG

Governor says he had 'to be honest' with taxpayers; another EDC member resigns in wake of crisis

PROVIDENCE -- As another high-profile member of the state's economic-development board resigned, Governor Chafee on Tuesday denied retired Red Sox pitcher Curt Schilling's accusation that his "devastating" comments about 38 Studios and its first video-game offering scared off potential private investors.

"No, absolutely not," said Chafee at the latest news conference he has held since the company first tumbled into default on a \$75- million state-guaranteed loan. By late last week, the company had laid off all of its employees.

"An investor's not going to be scared away by some governor's comments on this. It just, it defies logic. Investors look at the bottom line: 'Can I make money?' "

Chafee said he had "to be honest" in his dealing with Rhode Island taxpayers, who could be on the hook to repay \$102 million over the next eight years if 38 Studios cannot make its required bond payments.

Chafee has called the company's first video game, released in February, an "abject failure," an analysis he received from a consultant whom he refuses to name. Chafee also has said the company was burning through \$4 million a month, and he disclosed the next game isn't expected to be released until June 2013 -- two key "nuggets" that Schilling criticized Chafee for releasing in an exclusive interview over the weekend with The Providence Journal.

Chafee's defense of his administration's oversight of 38 Studios came on the same day he announced that J. Lynn Singleton, president of the Providence Performing Arts Center, has become the latest board member to resign from the Rhode Island Economic Development Corporation. Singleton was one of four remaining board mem-

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bers who voted for the controversial loan guarantee. Singleton has not returned requests for comment.

The governor said a forensic audit of 38 Studios could begin as early as Wednesday.

The state loan guarantee lured 38 Studios to Providence from Massachusetts, despite criticism within the business community and strong opposition by Chafee as he ran for governor.

Now, the company's financial viability hangs in the balance. Both Schilling and Chafee say they don't know if the company will survive.

For the first time, Chafee said Tuesday that EDC officials have received timely, monthly financial reports from 38 Studios all along.

Chafee also said General Treasurer Gina Raimondo was wrong to say 38 Studios could not have run into difficulty overnight.

"The red flags were just not there," Chafee said. "They were making their benchmarks and adhering to the criteria of the loan and trust agreement."

Although Chafee said he did not look at those financial reports himself, the EDC was monitoring them.

"There is a very able staff in charge of that, including an EDC director who was there at the inception of this deal," Chafee said. "So I had some confidence that this was being overseen very competently."

Chafee said he has worked diligently to help the company since it missed a May 1 payment of \$1,125,000 it owed to the EDC and did not publicly acknowledge the missed payment, which put the company into default on its loan agreement, for two weeks.

As Schilling faced short-term cash needs, including the company's mid-May payroll, he was counting heavily on receiving \$8.4 million in state film tax credits. If granted, the company could then sell those credits to anyone with a Rhode Island tax liability to raise quick cash.

Schilling and his top executives said they had been dealing with then-EDC Executive Director Keith W. Stokes, who has since resigned, and it appeared the approval of the credits was moving along. The company believed it would again be eligible for the credits if it emerged from default by paying that late payment.

Yet questions have since arisen as to whether 38 Studios is even now eligible for those credits because it's incorporated in Delaware. By law, such credits are supposed to be limited to companies incorporated in Rhode Island or "formed in Rhode Island."

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But **Schilling** and his team appear to have believed this was a nonissue, in part because **38 Studios**, which is headquartered in Rhode Island and registered to do business here, had received "initial certification" letters from the state film office, headed by Steven Feinberg.

State Tax Administrator David Sullivan said initial certification is by no means a guarantee that any company will get tax credits.

"It simply puts a company in the queue," he said, but then they have to meet all other requirements in state law and submit their expenses for review.

Of **Schilling's** belief that **38 Studios** would get the tax credits quickly, with Stokes' help, if it made that missed payment, Chafee said: "I don't think he [Stokes] had that authority. There's a process. Unfortunately, they didn't understand that process. I regret that."

All that said, Chafee repeated his reluctance to award the tax credits: "I want to have the confidence that this is going to lead to some financial footing, and I just haven't gotten that confidence at this point."

Chafee's late-day briefings have drawn praise and caution.

For example, Marion Orr, director of Brown's Taubman Center for Public Policy, said: "This could be a critical opportunity for Governor Chafee to show his leadership skills in a moment of real crisis and uncertainty. He's been quite transparent and straightforward and talking in plain language and seemingly trying to think it through."

Orr said the governor needs to strike "a delicate balance in how far can he go in bashing a company where the voters, the taxpayers, might have to step in if it fails."

Orr said that questions of whether Chafee adequately monitored **38 Studios** could also hurt him politically, depending on how this "high drama" plays out. Journal staff writers Andy Smith and Mike Stanton contributed to this report. kbramson@providencejournal.com (401) 277-7470 On Twitter @JournalKate

---- INDEX REFERENCES ---

COMPANY: 10TACLE STUDIOS AG; RHODE ISLAND PORT AUTHORITY AND ECONOMIC DEVELOPMENT CORP

NEWS SUBJECT: (Business Management (1BU42); Corporate Events (1CR05); Economic Development (1EC65); Economic Development Agencies (1EC15); Economics & Trade (1EC26); Executive Personnel Changes (1EX23); Finance Management (1FI66); HR & Labor Management (1HR87); Taxation (1TA10))

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REGION: (Americas (1AM92); North America (1NO39); Rhode Island (1RH18); U.S. New England Region (1NE37); USA (1US73))

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OTHER INDEXING: (RHODE ISLAND ECONOMIC DEVELOPMENT CORP) (Chafee; Curt Schilling; David Sullivan; Gina Raimondo; J. Lynn Singleton; Keith Stokes; Marion Orr; Steven Feinberg)

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May 30, 2012

BRIEF: Game expert says 38 Studios didn't follow marketing roadmap
Andy Smith
The Providence Journal, R.I.

May 30--PROVIDENCE, R.I. -- Alexander Sliwinski, news editor of the influential video-game site Joystiq, said the gaming world has never seen much evidence that Curt Schilling's dream project, a massive multi-player online game, was near completion.

By now, he said, there should have been more than just a few screenshots of the game, and they've only been available since 38 Studios' financial crisis became public.

There's been no evidence of any game play, no magazine stories, no visits to the studio by game journalists. "They didn't follow the standard marketing progress of anyone else in the industry," he said.

Sliwinski said that since 2006, when Schilling started the company, the only product it brought to market was essentially purchased, when Schilling bought Maryland company Big Huge Games in 2009.

More news on 38 Studios

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REGION: (Americas (1AM92); North America (1NO39); U.S. New England Region (1NE37); USA (1US73))

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OTHER INDEXING: (Alexander Sliwinski; Curt Schilling)

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May 30, 2012

BRIEF: Publisher says **Schilling** game sold over 1 million copies
Andy Smith
The Providence Journal, R.I.

May 30--PROVIDENCE, R.I. -- Electronic Arts, the California publisher for "Kingdoms of Amalur: Reckoning," the game released by Curt **Schilling's** troubled 38 Studios, said the game has sold more than a million copies.

In an interview Sunday, **Schilling** disputed Governor Chafee's characterization of the game as a failure, and said it had sold 1.3 million copies.

EA president Frank Gibeau said " 'Kingdoms of Amalur: Reckoning' got great scores from critics and sold more than a million units. It's a great intellectual property and we hope there's a sequel."

Gaming blogs have reported that a sequel was in the works. But **Schilling** said the 38 Studios had been in talks with another company, not EA, about publishing the sequel.

More news on 38 Studios

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REGION: (Americas (1AM92); North America (1NO39); U.S. New England Region (1NE37); USA (1US73))

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May 30, 2012

BRIEF: Curt Schilling posts new photos on Facebook of fantasy world in 38 Studios' unfinished game
Andy Smith
The Providence Journal, R.I.

May 30--PROVIDENCE, R.I. -- Curt Schilling, owner of embattled video-game company 38 Studios, is still promoting Project Copernicus, the massive multiplayer online game his company had been working on Providence.

Tuesday he posted six new pictures of the fantasy world on his Facebook page.

"A world that has to be seen, and lived in," Schilling wrote. "Images from the most magical, breathtaking and awe-inspiring world ever created."

All the employees at 38 Studios working on the game were laid off last week.

More news on 38 Studios

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(1CO62); Consumer Video Products (1CO02); Electronic Interactive Entertainment (1EL14); Electronics (1EL16); Entertainment (1EN08); Games Software (1GA28); Home, Personal & Consumer Software (1HO01); I.T. (1IT96); Internet (1IN27); Internet Media (1IN67); Internet Software (1IN50); Online Social Media (1ON38); PC, Video & Online Games (1PC44); Software (1SO30); Software Products (1SO56))

REGION: (Americas (1AM92); North America (1NO39); U.S. New England Region (1NE37); USA (1US73))

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May 29, 2012

Section: Local

Schilling blames state for company's problems ; 38 studios Chairman speaks out

Mike Stanton; ANDY SMITH

Says Chafee, EDC officials reneged on tax-credit deal needed to keep firm afloat; states governor's comments scared off investors

PROVIDENCE -- Curt **Schilling** sits in a glass-walled conference room in the video-game company that he built. The former Boston Red Sox pitching star is gaunt, unshaven and wearing a wrinkled 38 Studios T-shirt and green camouflage shorts.

He is not sleeping and has lost 33 pounds in the past 45 days, which he calls a "surreal" stretch that has seen 38 Studios -- the company that he and Rhode Island have bankrolled to the tune of more than \$100 million -- brought to the brink of financial ruin.

His controversial partnership with the State of Rhode Island, forged with \$75 million in taxpayer-guaranteed bonds two years ago, is hanging by a thread, in large part, he says, because of broken promises by the state and damaging public comments by Governor Chafee regarding 38 Studios' finances.

If 38 Studios fails, Rhode Island taxpayers will be liable to repay more than \$100 million. Also, **Schilling** says, he stands to lose \$50 million of the fortune he earned as a likely Hall of Fame baseball pitcher and committed to the venture -- "everything I have."

In exclusive interviews with The Providence Journal over Memorial Day weekend as he struggled to save his company, **Schilling** broke his silence, defending his beleaguered company and denying that he sought a government "bailout."

Schilling, the founder and chairman, says state economic-development officials reneged on a deal to approve

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film tax credits to which 38 Studios is legally entitled, and to allow the company to defer a \$1.12-million payment due to the state on May 1 so that 38 Studios could meet its May 15 payroll.

Schilling also criticized Chafee's "devastating" public remarks about 38 Studios' financial health, which he says scared off private investors.

Within 72 hours of Chafee's May 14 statement that the state was trying to keep 38 Studios "solvent," **Schilling** says, a video-game publisher pulled out of a \$35-million deal to finance a sequel to "Kingdoms of Amalur: Reckoning," the fantasy game that 38 Studios released in February.

Chafee said Monday night that he was trying to strike a balance between providing information to the taxpayers and not jeopardizing 38 Studios. As a candidate in 2010, Chafee opposed the state's deal with 38 Studios but said he would be the company's biggest cheerleader once it was in place when he took office in 2011.

On Thursday, 38 Studios was forced to lay off its 286 workers in downtown Providence and 100 in Maryland.

"The governor is not operating in the best interest of the company by any stretch, or the taxpayers, or the state," says **Schilling**, who invited two Journal reporters and a photographer into the usually off-limits offices at One Empire Plaza, in downtown Providence. "We're trying to save this company and we're working 24/7. The public commentary has been as big a piece of what's happening to us as anything out there."

Chafee says he wants to do whatever he reasonably can do to help, but that he's opposed to throwing "good money after bad" or allowing 38 Studios to receive film tax credits after receiving \$47 million in state bond money.

Responds **Schilling**: "That money is going into the hands, wallets, mouths of families who live in Rhode Island - right back into the system. ... We're not trying to take advantage of the taxpayers. We're trying to be a successful business in the State of Rhode Island that helps the State of Rhode Island get out of the doldrums that we are in."

Furthermore, **Schilling** says, all of the money he received from the state and all of his own money that he invested has gone into the company, much of it into the Rhode Island economy. According to 38 Studios, 182 of its Providence-based employees live in Rhode Island, earning an average salary of \$86,000.

"To be clear, I've never taken a penny out of this company," says **Schilling**. "If this company fails, I will be financially devastated, and so will other people."

Schilling says that talks continue with potential investors, who might be willing to step in if the state agrees to yield its first position on 38 Studios' collateral to a private investor.

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Is 38 Studios finished?

"I don't know," says **Schilling**. "I pray that it's not. We're doing everything we can do to make that not be the case."

Jonathan Savage, a business lawyer who is representing Chafee, says that he is in daily discussions with 38 Studios and with potential private investors. He says that he believes Chafee was merely stating the obvious when he commented publicly on the company's troubled finances; the governor's remarks haven't proven damaging in Savage's talks with private investors. He is not aware of any potential deals falling through but says those publishers would be welcomed back at the negotiating table.

"It's a fragile situation," Savage said Monday night. "The governor has made it clear that he wants no new taxpayer money spent, but he has also encouraged me to forge ahead to find fresh private capital."

Savage said the state is willing to yield first position to 38 Studio's assets -- its intellectual property -- to attract a private investor.

"The state is not going to be a barrier," he said.

The current crisis began in mid-April, when **Schilling** and 38 Studios executives met with Chafee and House Speaker Gordon Fox to discuss a cash crunch at the company.

Schilling attributes the crunch to the normal growing pains of an "early-stage startup" company. Disputing Chafee's assessment, **Schilling** says that "Kingdoms of Amalur: Reckoning" had enjoyed a successful launch in February, selling more than 1 million copies in its first 90 days and exceeding the projections of its publisher, Electronic Arts.

Schilling says 38 Studios hasn't seen any money from "Reckoning's" sales, nor did it expect to: that money was committed to EA, which had paid 38 Studios an up-front publishing fee of \$35 million.

But he says the positive buzz from Reckoning created interest and potential customers for the bigger, multiplayer online fantasy game that the company is developing, dubbed Project Copernicus, which is set in the same universe.

"That changed the tenor and velocity of all of our investor discussions," says **Schilling**. "We felt we were in an extremely positive place."

Still, given 38 Studio's previous inability to attract private financing, **Schilling** says the company needed short-term help from the state to stay afloat until private deals came through.

At the April meeting with Chafee, says **Schilling**, 38 Studios' executives said they needed to use \$8.7 million in 2011 film tax credits to provide that financial bridge and to meet the May 15 payroll.

They also discussed the need to lure private investors by giving them "senior security interests" in 38 Studio's assets, most notably its intellectual property. That meant Rhode Island taxpayers would take a back seat to any private investor -- something that **Schilling** says always was going to be necessary and had been discussed previously with the Rhode Island Economic Development Corporation, which issued the job-guarantee bonds.

Schilling says 38 Studios' inability to give a private investor "first position" had created hurdles to attracting private venture capital, "but I'd always been operating under the assumption as our partner we'd come to agreements."

As 38 Studio's April talks with the state progressed, **Schilling** says, Chafee's position was that "we are partners" and that he wanted to help. The paperwork for approval of the film-tax credits was moving along. Two EDC board members, Helena Foulkes and J. L. "Lynn" Singleton, were briefed on the plan, which would require approval of the EDC board, which is chaired by Chafee.

38 Studios was dealing with Keith Stokes, then-EDC's executive director, and David Gilden, the EDC's lawyer. On April 30, **Schilling** says, the company talked to Stokes about deferring the \$1.12- million payment that was due the next day, May 1, and using the money for the May 15 payroll. But the company also said that if the tax credits were issued in time, 38 Studios wouldn't need the extension.

Stokes declined comment. Gilden could not be reached.

The company missed the May 1 payment. As a result, on May 4, the EDC issued a notice that 38 Studios had defaulted on its state loan agreement, making the company ineligible for the film-tax credits that it needed to stay afloat.

Schilling says the company was blindsided by the notice. Under terms of 38 Studio's original agreement with the state, he says, the company should have had 30 days to address the missed payment before being declared in default.

That touched off frantic negotiations among 38 Studios, the EDC and Chafee. By the end of the following week, the word had begun leaking to reporters. Then, on Monday, May 14, Chafee said publicly that the state was working with 38 Studios to keep the company "solvent."

In the ensuing days, as the 38 Studios story went viral, Chafee made other public remarks that **Schilling** calls damaging.

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The governor said the Reckoning game released in February had been an "abject failure." He also revealed the projected release date of Project Copernicus, June 2013, and 38 Studios' "burn rate" - - that it was spending \$4 million a month, the lion's share on payroll.

The release date of a game is "the most costly piece of information we own," says Schilling. And the burn rate is a closely guarded industry secret. "Those two nuggets were given out as if, 'Here's the weather and here's the time.'"

"We made it clear in EDC meetings how damaging it was, what was happening to our company. [My workers] are sitting there, busting their [humps] without a paycheck, we're grinding through this, and then he's press-conferencing on a daily basis, saying this company is a failure, our games are a failure, this was a mistake -- over and over and over again.

"Our partner."

On Saturday, May 12, Schilling says, 38 Studios learned that the president of a video-game publishing company had approved a \$35- million deal to publish the sequel to Reckoning, and was going to his company's executive committee that week for the money. But Chafee's comments killed the deal, Schilling says.

The company also says Chafee's public comments derailed discussions that 38 Studios says it was having with another publisher for a \$55-million deal on Project Copernicus, as well as a venture capitalist about additional financing.

38 Studios declined to identify the would-be investors, citing confidentiality.

Meanwhile, Schilling says, the EDC's Stokes and Gilden had agreed to a deal in which 38 Studios would pay the \$1.12-million fee and then EDC would facilitate the release of the tax credits, by certifying that 38 Studios was no longer in default.

The night before it was to go through, company director Thomas Zaccagnino says, he learned that the embattled Stokes, who was drawing heavy criticism for the 38 Studios deal, had resigned. Since Stokes had been a point person in talks with 38 Studios, a worried Zaccagnino texted Gilden, "Please tell me that this won't affect our agreement."

Responded Gilden: "it will not."

But the next day, when 38 Studios tried to pay the \$1.12 million with money from a tax-credit investor, executives say they found themselves in an embarrassing scene in which Chafee announced that 38 Studios had sent a bad check with insufficient funds.

Richard O. Wester, 38 Studio's chief financial officer, says he went to the EDC's offices at 5 p.m. that day with a check. Meanwhile, 38 Studios' controller was back at the office, waiting for the funds to be wired from the buyer of the tax credits into 38 Studios' account. When that happened, Wester would receive the green light to give the EDC the check.

But the tax-credit buyer, whom 38 Studios declined to identify, backed out -- because the EDC lawyer Gilden would not provide a state guarantee to the buyer. When Wester learned that, he says, he never handed over the check.

Fifteen minutes later, he says, he saw a news story on The Providence Journal's website, quoting Chafee's spokeswoman that the company had given the EDC a bad check.

The next day, Friday, May 18, another tax-credit investor wired the \$1.12 million directly to the EDC. But the state did not release the tax credits to 38 Studios, and still hasn't -- raising doubts about how that investor will ultimately be repaid.

When Schilling appeared at a closed-door meeting of the EDC board the following Monday, May 21, he says, he was faced with skeptical board members.

"The first question I was asked was, 'Why did you lie to us?' " says Schilling. "You said you didn't have the money, then you went out and wrote a check. I said, 'I didn't write the check. I don't have the money.' "

In two weeks, the partnership between the state and 38 Studios has come close to breaking down.

"Given where we're at, it's not flourishing," says Schilling, slumped in a chair Sunday in the 38 Studios conference room, his left cheek puffed out by a plug of chewing tobacco.

The state has declared 38 Studios in default of its loan agreement again, saying that it failed to notify the state when it laid off its employees last week. Bill Thomas, the 38 Studios president, produced a May 25 letter and e-mail notifying the state, which was within 24 hours of the layoffs. The company didn't tell the state sooner, Thomas says, to avoid leaks. "We wanted our employees to hear it from us first."

The state also has questioned 38 Studios' eligibility for the film-tax credits because the company is incorporated in Delaware.

Thomas, the 38 Studios president, countered with a May 25 letter that he wrote to the head of the state film office, Steven Feinberg, noting that the tax credits already had received "initial certification," which "by your own admission" means that a company registered to do business in Rhode Island, as 38 Studios is, qualified.

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Wrote Thomas: "There was a fully negotiated deal and agreement on behalf of the State of Rhode Island by RIEDC executive director and its executive counsel to issue all the 2011 tax credits upon payment of the annual guaranty fee," wrote Thomas.

Says Schilling: "I don't know how we suddenly became ineligible. Delaware didn't move."

Meanwhile, Schilling and his partners are holding intensive discussions with private investors, both short- and long-term. The salvation of 38 Studios, and the intertwined fates of Rhode Island taxpayers, 38 Studios' employees and Schilling's fortunes, depend on a Rubik's cube of investors and aid from the state. Time is running out.

Schilling, 45, is alternately despondent and animated as he shows a reporter around the vacant fifth-floor offices. State-of-the-art cubicles are equipped with computers, decorated by statues of super heroes, photos from the fantasy worlds of Amalur, a Lego airplane, a water gun. The carpet is a colorful patchwork of yellow, orange, green and gray squares. A foosball table stands in a corner, near a kitchen, bright light streaming in from large windows overlooking Empire Street and downtown.

Since the company moved into these offices in April 2011, Schilling says, he has generally been at work every day by 8 a.m., trying to build a company that he says is like a family. Noting the throngs of reporters camped outside his doors, he praises the loyalty of his workers, a top-notch group of artists and engineers and designers, who have maintained their silence and stuck together. With the layoffs, some have brought groceries in for others, and offered coworkers a place to sleep.

Criticized for his silence, Schilling says he has wanted to respond to the charges against him but had been restrained by his advisers and directors, given the sensitivity of efforts to save the company.

He is asked to respond to critics who call him a hypocrite for having conservative, small-government values yet taking what they view as a big-government handout.

"I have done whatever I can do to create jobs and create a successful business, with my own income," he replies. "Fifty million dollars, everything I've ever saved, has been put back into the economy. The \$49 million from Rhode Island has been put back in the economy. I've never taken a penny and I've done nothing but create jobs and create economy. And so how does that translate into welfare baby? I've tried to do right by people."

He says he is speaking out now, in hopes of having people know the full story as they weigh 38 Studios' fate. He has sunk \$38 million into the company that bears his jersey number with the Red Sox, and also is on the line for another \$12 million in personal loan guarantees, he says. "We're at a potential endgame scenario, one way or another, at some point in the near future."

Curt Schilling surveys the now-empty fifth-floor offices of 38 Studios in downtown Providence Monday. On Thursday, the company laid off its 286 Rhode Island employees. He spoke to The Journal on Sunday and

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Monday. The Providence Journal / Connie Grosch

With a white board behind him, with sketches drawn by employees, Curt **Schilling** Monday talks about his frustration with the governor, the Economic Development Corporation and his efforts to gain private financing and build a company. Below is Governor Chafee with his chief of staff, George Zainyeh. The Providence Journal / Connie Grosch

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--- INDEX REFERENCES ---

COMPANY: 10TACLE STUDIOS AG; BANK SCHILLING AND CO AG; EDUCATIONAL DEVELOPMENT CORP; ELECTRONIC ARTS INC; JOHOR CORP; STUDIO ALICE CO LTD; PROVIDENCE JOURNAL CO; RHODE ISLAND PORT AUTHORITY AND ECONOMIC DEVELOPMENT CORP

NEWS SUBJECT: (Local Taxing Authorities (1LO66); Taxation (1TA10))

INDUSTRY: (Accounting, Consulting & Legal Services (1AC73); Consumer Electronics (1CO61); Consumer Products & Services (1CO62); Consumer Video Products (1CO02); Electronics (1EL16); Entertainment (1EN08); Motion Pictures (1MO51); PC, Video & Online Games (1PC44))

REGION: (Americas (1AM92); Delaware (1DE13); North America (1NO39); Rhode Island (1RH18); U.S. Mid-Atlantic Region (1MI18); U.S. New England Region (1NE37); USA (1US73))

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May 29, 2012

Schilling: State of RI broke financial promises as governor scared away investors
 Mike Stanton
 The Providence Journal, R.I.

May 29--By Mike Stanton and Andy Smith,

 Journal Staff Writers

PROVIDENCE -- Curt **Schilling** says 38 Studios is hanging by a thread in large part because of broken promises by the state and damaging public comments by Governor Chafee regarding the finances of the video-game company.

In exclusive interviews with The Providence Journal, **Schilling** broke his silence, defending his beleaguered company and denying that he sought a government "bailout."

Schilling's controversial partnership with the State of Rhode Island was forged with \$75 million in taxpayer-backed bonds two years ago. If 38 Studios fails, Rhode Island taxpayers will be liable to repay more than \$100 million. Also, **Schilling** says, he stands to lose \$50 million of the fortune he earned as a professional baseball player and committed to the venture.

Schilling says that state economic-development officials reneged on a deal to approve film tax credits to which 38 Studios was legally entitled, and to allow the company to defer a \$1.12-million payment that was due the state on May 1 so that 38 Studios could meet its May 15 payroll.

Schilling also criticized Chafee's "devastating" public remarks about 38 Studios' financial health, which he says scared off private investors.

Within 72 hours of Chafee's May 14 statement that the state was trying to keep 38 Studios "solvent," **Schilling** says, a video-game publisher pulled out of a \$35-million deal to finance a sequel to Kingdoms of Amalur: Reckoning, the fantasy game that 38 Studios released in February.

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On Thursday, 38 Studios was forced to lay off its 291 workers in downtown Providence and 100 more in Maryland.

More news on 38 Studios

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--- INDEX REFERENCES ---

NEWS SUBJECT: (Taxation (1TA10))

INDUSTRY: (Accounting, Consulting & Legal Services (1AC73); Application Software (1AP32); Consumer Electronics (1CO61); Consumer Products & Services (1CO62); Consumer Video Products (1CO02); Electronics (1EL16); Entertainment (1EN08); Games Software (1GA28); Home, Personal & Consumer Software (1HO01); I.T. (1IT96); Motion Pictures (1MO51); PC, Video & Online Games (1PC44); Software (1SO30); Software Products (1SO56))

REGION: (Americas (1AM92); North America (1NO39); Rhode Island (1RH18); U.S. New England Region (1NE37); USA (1US73))

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May 27, 2012

Section: Business

38 Studios deal gets attention ; bizblog

The crisis at Curt Schilling's 38 Studios, which has put taxpayers' money at risk, has attracted regional, national and international headlines.

The Wall Street Journal, Bloomberg News, The Guardian in London, The Globe and Mail in Canada, Bond Buyer, Huffington Post, The Boston Globe and The Boston Herald are among the media companies following the story, after Schilling's company missed a \$1.1- million guarantee-fee payment to the state on May 1. The payment has since been made, but the company is still struggling to find new investors to keep 38 Studios afloat, create its next video game and make enough money to pay back the \$75 million in bonds sold by the state to lure the company and hundreds of jobs from Massachusetts to Providence in 2010.

Forbes magazine wrote, "A sweet loan deal and a promising team looked like a sure-fire win for the fledgling developer and the state ... however, the future of 38 Studios appears grimmer than anyone expected."

Patrick isn't gloating

Massachusetts Governor Patrick took some heat in 2010 when he passed on investing state money in 38 Studios, and then watched Curt Schilling's video-game company move from Maynard, Mass., to Providence with the help of a \$75-million state loan guarantee.

Patrick may feel vindicated, now that 38 Studios is in financial trouble and Rhode Island taxpayers could be on the hook for up to \$102 million payable over eight years to bondholders. But he's not gloating.

"I didn't have to make the call about Schilling," Patrick told The Boston Globe. "I got a recommendation long before it got to me that we should stand down on this one."

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Patrick didn't pass on another risky investment -- a \$58-million state aid package to Evergreen Solar, the Denville, Mass.-based solar-panel manufacturer that later went bankrupt.

Patrick continues to defend the investment, saying it was part of the state's strategy to help emerging, "green" industries that create jobs.

Sands says no to Mass.

Another gambling giant has stepped away from the competition for a resort casino license in Massachusetts.

Sheldon Adelson's company, Las Vegas Sands Corp., said last week it is no longer interested in investing in a Massachusetts casino.

Adelson's decision, along with Las Vegas mogul Steve Wynn's announcement to suspend plans for a casino in Foxboro, leaves a big opening for developers of a casino in East Boston to win the license set aside for the central part of the state. The East Boston plan is being developed by Suffolk Downs and Caesars Entertainment.

The new Massachusetts casino law allows three resort casinos, one in each of three regions in the state, and one slots parlor anywhere in the state.

Region's jobless gap widens

The gap is widening among the economies of states in Southeastern New England.

Rhode Island reported a jobless rate of 11.2 percent in April, with 62,200 residents out of work and looking for a job. Through the first four months of the year, the state has lost 100 jobs.

In Massachusetts, the unemployment rate was 6.3 percent in April, the lowest level in three years. The state has gained about 31,000 jobs this year.

Connecticut reported a jobless rate of 7.7 percent in April and the state has gained 5,300 jobs in 2012.

Bryant plans school in China

Ronald Machtley, president of Bryant University, told the crowd at the World Trade Day event on the Smithfield campus last week that the university plans to build a school in China in 2013 to enhance its international reputation and course of studies.

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In March, Bryant entered into a preliminary joint venture agreement with the Beijing Institute of Technology, Zhuhai, to collaborate on a new university to be called Bryant University Zhuhai.

The application to proceed with plans is under review by the Chinese Ministry of Education.

Southwest to expand flights

Here's what real airport development looks like.

Southwest Airlines, the biggest carrier at T.F. Green Airport, has agreed to finance a \$100-million expansion of Houston's William P. Hobby Airport as it seeks the city's approval to start international flights

Southwest, the U.S.'s biggest discount carrier, plans to add flights to Mexico, the Caribbean and South America from Houston's airport. The plan has the support of Houston's mayor, but a competitor, United Continental, said Southwest's plan will drain passengers from its airline and force it to cut jobs and flights.

John Kostrzewa is The Journal's assistant managing editor/ business, commerce & consumer issues. Reach him at 277-7330 or at jkostrze@providencejournal.com. John Kostrzewa is The Journal's assistant managing editor/ business, commerce & consumer issues. Reach him at 277-7330 or at jkostrze@providencejournal.com.

---- INDEX REFERENCES ----

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NEWS SUBJECT: (Economic Indicators (1EC19); Economics & Trade (1EC26); Emerging Market Countries (1EM65); Employment (1EM26); Unemployment & Labor Shortages (1UN50))

INDUSTRY: (Casinos (1CA80); E-Commerce (1EC30); E-Commerce Industries (1EC99); Entertainment (1EN08); Gaming Industry (1GA25); Internet (1IN27); Online Services (1ON37); Retail (1RE82))

REGION: (Americas (1AM92); Asia (1AS61); China (1CH15); Eastern Asia (1EA61); Far East (1FA27); Massachusetts (1MA15); Nevada (1NE81); North America (1NO39); Rhode Island (1RH18); Texas (1TE14); U.S. New England Region (1NE37); U.S. Southwest Region (1SO89); U.S. West Region (1WE46); USA (1US73))

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May 26, 2012

Section: Local

Laid-off workers get help from state, video-game industry

Andy Smith

PROVIDENCE -- A day after mass layoffs at 38 Studios, Curt Schilling's financially troubled video-game company, the state and the game industry both reached out to its former employees.

At 38 Studios headquarters at One Empire Plaza in downtown Providence, perhaps 50 employees entered the building Friday morning as the state's Department of Labor and Training sent a team to explain unemployment insurance and other benefits.

A DLT spokeswoman said she did not know how many attended the session.

According to the state Economic Development Corporation, the most recent job count it had from 38 Studios was about 290 employees in Rhode Island.

Charles J. Fogarty, director of the DLT, said a relatively small number had filed for unemployment so far, but that state law prohibited him from saying how many.

Christopher F. Koller, state health insurance commissioner, said laid-off 38 Studios employees have the option to purchase their existing Blue Cross health-insurance policies at the same rate 38 Studios paid.

On the front door of One Empire Plaza was a sign, "We (heart) Curt," with a few signatures on it. "No regrets," someone wrote.

Most 38 Studios employees refused to speak to the cluster of media gathered outside the building. "Don't even bother," one said.

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The few who did speak declined to give their names. None had harsh words for **Schilling**, and most blamed the company's problems on Governor Chafee.

Former employee Steve Danuser criticized Chafee during an interview with New England Cable News. "We just needed a little more help, and we thought the state would have our backs on that," he said. "We thought the governor was an ally. It didn't turn out that way."

On the contrary, Danuser said Chafee had hurt 38 Studios.

"Why did you do it? Why didn't you help us?" Danuser said. "He said a lot of things; he's broken confidentiality. He's done a lot of things to materially hurt us, and I don't understand it."

Former 38 Studios director of audio Aubrey Hodges said in an interview with The Providence Journal that as of last Friday, 38 Studios employees were still hoping the company could survive.

Hodges said he left 38 Studios as of May 18, as the company's problems were making headlines, for reasons unrelated to 38 Studios' financial crisis.

"I'm not going to comment on blame. I just went to work and did my job. The business people were supposed to do their jobs ... Good God, how would I assess the blame? I was just responsible for making a really cool game," he said.

It doesn't look like former 38 Studios employees will lack for job offers.

On Twitter, scores of job openings are listed under the hashtag #38jobs.

There's also a Facebook group titled 38jobs.

CCP Games, a video-game company headquartered in Iceland, with offices in Atlanta, will be holding job interviews Monday at Blake's Tavern, 122 Washington St., from 11 a.m. to 8 p.m.

Ned Coker, spokesman for CCP Games, said 38's employees have skills that are prized in the gaming world.

"MMO [massive multi-player online] games are the most complicated games you can make," he said.

"You have to create whole worlds with their own physics and interactions. 38 Studios was a major player in MMO game space, and it drew a lot of talented people."

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At least two other game companies, Turbine Inc., and Avalanche Studios, have already held recruitment events in Rhode Island.

38 Studios' Rhode Island employees were working on an MMO game code-named Project Copernicus. "Everyone was focusing on making a really cool game," said Hodges. "We went to work every day; we made something really cool, and now it's over."

A sign saying "No Regrets" in the door of One Empire Plaza, home of 38 Studios, whose workers were laid off Thursday. The Providence Journal / Steve Szydlowski

At 38 Studios, a sign referring to founder Curt Schilling and a state Labor Department worker greet laid-off workers Friday. The Providence Journal / Steve Szydlowskiasmith@providencejournal (401) 277-7485

---- INDEX REFERENCES ----

COMPANY: CCP GAMES; FACEBOOK INC; JOHOR CORP; TURBINE INC; TWITTER INC; PROVIDENCE JOURNAL CO

NEWS SUBJECT: (Economic Indicators (1EC19); Economics & Trade (1EC26); Employment (1EM26))

INDUSTRY: (Application Software (1AP32); Consumer Electronics (1CO61); Consumer Products & Services (1CO62); Consumer Video Products (1CO02); Electronic Interactive Entertainment (1EL14); Electronics (1EL16); Entertainment (1EN08); Games Software (1GA28); Home, Personal & Consumer Software (1HO01); I.T. (1IT96); PC, Video & Online Games (1PC44); Software (1SO30); Software Products (1SO56))

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May 26, 2012

Section: Local

Chafee turns to forensic audit to get answers ; 38 studios the next step

Kate Bramson; Katherine Gregg

Governor says a key question is how much founder Curt Schilling has put up of his own money

PROVIDENCE -- Governor Chafee is seeking a forensic audit of Curt Schilling's video-game company, which defaulted on a \$75-million loan agreement when it laid off nearly 300 employees Thursday without notifying the state.

"We just want to know everything possible," Chafee told about 30 reporters at the State House. "The taxpayers have tens of millions of dollars invested in this company. It has been difficult to get answers from them. We want to know everything possible about what happened to every penny of [those] taxpayer dollars."

The company's lack of communication about its layoffs violated 38 Studios' loan agreement with the state and put the company in default for a second time this month, Chafee said. That default also makes the company ineligible for \$8.4 million in state film-tax credits it's seeking for production work done last year on its video game, "Kingdoms of Amalur: Reckoning."

Furthermore, Chafee said he did not know that Keith W. Stokes, the former executive director of the Rhode Island Economic Development Corporation, had signed a document last August waiving a requirement that 38 Studios' project monitor, IBM, provide the EDC with detailed written reports on the company's financial and project milestones.

"I did not know, and I assume the board did not know" about that action, said Chafee, who chairs the EDC's board. "From what I understand from [the] EDC, that was to protect sensitive information from being on printed papers that might be lying around the office. That was the explanation I heard on that."

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Before Chafee took office and appointed four new board members, the board in 2010 approved the controversial \$75-million loan guarantee that lured Schilling's company from Massachusetts to Providence.

Stokes, a key architect of the loan guarantee, resigned May 16. He did not return a call from The Providence Journal on Friday.

Chafee was in office last August when Stokes signed that letter, but he would not say whether he thought Stokes' action was a mistake.

"There is going to be so much scrutiny on everything that happened right from the inception of the idea of the state getting involved in this industry," Chafee said. "Right now we've really focused our energies on every effort to get 38 Studios solvent, and to deal with the employees. There will be plenty of time for that look back. August of 2011 was a while ago."

Asked whether he's relying on the state police to secure the company's financial records, Chafee replied, "We are talking to everybody."

Reached on Friday night, Rhode Island State Police Col. Steven G. O'Donnell said the state police have had many conversations with the governor's staff about 38 Studios and that they've been "monitoring 38 Studios very closely" for the last several weeks.

He declined comment on whether the police have secured the company's financial documents, but he said there was no official investigation of the company.

"We're monitoring all the dynamics of 38 Studios, and when the time's right, if a criminal investigation is warranted, we'll turn that page," O'Donnell said.

Chafee would not say what the state was doing to secure the company's financial records.

"We have the confidence that we are in good shape right now," he said. "And as we proceed, we will make sure that all records are secure."

When asked whether he had reason to believe anything criminal had happened, Chafee replied, "Not yet ... but we are [taking] every avenue to protect the taxpayer dollars. I hope that doesn't occur. I really do."

Chafee said he's relied on Providence lawyer Jonathan Savage, an unpaid adviser, to communicate with 38 Studios executives in recent days. Savage is "brainstorming" with company executives, the governor said, about ways to find outside investors that might pump money into the company. The governor has said the crux of the company's troubles is that it has been unable to secure the next round of investment it needs to continue work on

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the multiplayer online game it was developing with the \$47.4 million in loan money it has received.

"It's a difficult industry, and we are not optimistic, but we are still working on it," Chafee said. " ... In fact, I am very pessimistic."

Many questions remain unanswered, in part because the EDC and Chafee have met for hours behind closed doors with **Schilling** and his team. But also, Chafee says, because the company has not been forthcoming with details about its financial status.

38 Studios executives have declined comment.

"We are still trying to ascertain exactly how much of his own money has been invested," Chafee said of **Schilling**. "We hear different things. And what we hear is different from what we can so far document. That's why this audit is so important."

Last week, EDC legal counsel David M. Gilden said the corporation had only received oral reports from IBM. The document Stokes signed last August allowed IBM to provide the EDC with oral briefings only, though the EDC could still request more detailed information.

Asked Friday whether the EDC has sought written documentation, Chafee replied, "I don't know the answer to that."

Chafee has not announced a successor to Stokes.

Conversations between Chafee and EDC board members continue, after vice chairwoman Helena B. Foulkes resigned Thursday.

Chafee said he told three others whose terms expired in February that he intends to replace them.

One of them, Rhode Island AFL-CIO President George Nee, who voted for the deal in 2010, has acknowledged that Chafee asked him on Wednesday to resign, linking the request to his 2010 vote to approve the loan guarantee.

"He said that it would be better to have a clean slate," Nee said. "... He just said that it was a bad decision."

But Nee said he called the governor Friday to say: "I will not resign from the board."

On Friday, Chafee recalled saying during his campaign for office that board members might be liable for the de-

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cision to grant Schilling the loan deal. "That wasn't a popular statement to make," he said. "And I knew when I made it [that] it wouldn't be a popular statement to make. ... But I felt that strongly about this."

Governor Chafee at a news conference Friday: "We just want to know everything possible" about 38 Studios' situation. The Providence Journal / Steve Szydlowski kbramson@providencejournal.com (401) 277-7470 On Twitter @JournalKate kgregg@providencejournal.com (401) 277-7078

---- INDEX REFERENCES ----

COMPANY: EDUCATIONAL DEVELOPMENT CORP; INTERNATIONAL BUSINESS MACHINES CORP; PROVIDENCE JOURNAL CO (THE); EASEL; RHODE ISLAND PORT AUTHORITY AND ECONOMIC DEVELOPMENT CORP; INTERNATIONAL BUSINESS MACHINES CORP

NEWS SUBJECT: (Business Management (1BU42); Campaigns & Elections (1CA25); Corporate Events (1CR05); Economic Development (1EC65); Economic Development Agencies (1EC15); Economics & Trade (1EC26); Executive Personnel Changes (1EX23); Finance Management (1FI66); HR & Labor Management (1HR87); U.S. Congressional Campaigns (1US07))

INDUSTRY: (Banking (1BA20); Financial Services (1FI37); Loans (1LO12); Retail Banking Services (1RE38))

REGION: (Americas (1AM92); North America (1NO39); Rhode Island (1RH18); U.S. New England Region (1NE37); USA (1US73))

Language: EN

OTHER INDEXING: (RHODE ISLAND ECONOMIC DEVELOPMENT CORP) (Chafee; Curt Schilling; David Gilden; George Nee; Helena Foulkes; Jonathan Savage; Keith Stokes; Steven O'Donnell)

COMPANY TERMS: IBM CORP

PRODUCT: Electronic Computers; Office Machines, NEC; Electronic Computer Manufacturing; Software Reproducing; Semiconductor and Related Device Manufacturing; Software Publishers; Other Computer Peripheral Equipment Manufacturing

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May 26, 2012

Section: Local

Lawyers' cut in 38 Studios bond sale was \$545,650

Katherine gregg

PROVIDENCE -- A gaggle of lawyers from Cranston to Los Angeles -- including a former Rhode Island lieutenant governor -- shared close to \$545,650 in payments from the state-backed sale of \$75 million in taxable revenue bonds for former Red Sox pitcher Curt Schilling's collapsed video-game venture, 38 Studios.

The local payments from the 2010 bond sale included \$124,790 to Adler Pollock & Sheehan, as legal counsel to the Rhode Island Economic Development Corporation; \$36,990 to Taft & McSally as the state's disclosure counsel; \$120,620 to First Southwest Company as financial adviser to the EDC; \$190,000 to Moses & Afonso as bond counsel to the EDC; and a \$12,250 "partial payment" to Pannone Lopes Devereaux & West as local counsel to the "placement agent."

The lawyers involved in the bond sale approved by the EDC when Republican Gov. Donald Carcieri chaired the board included: former Republican Lt. Gov. Bernard Jackvony at Pannone Lopes Devereaux & West, according to recently released EDC documents.

At Taft & McSally, they included Robert Murray, a chief of staff to another former Republican governor, Edward D. DiPrete.

At Adler Pollock, they include the EDC's longtime legal adviser, Robert Stolzman, and at Moses & Afonso, lawyers Antonio Afonso Jr. and Paul M. Harley.

Another \$58,324 went to Sheppard Mullin Richter & Hampton in Los Angeles as "special intellectual property counsel" to the EDC, and \$2,500 to Bernstein Shur in Portland, Maine, as counsel to the trustee, according to information provided in recent days by the EDC.

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Newly released documents name other law firms involved in the sale of the \$75-million bond, but it is not yet clear how much they were paid, by whom, and from which pool of money. They include lawyer Ellen Corneau at Edwards Angell Palmer & Dodge as "special counsel" to the "obligors and guarantors" who, in this case, include 38 Studios, 38 Studios Baltimore, Mercury Project and a "Special IP Subsidiary." kgregg@providencejournal.com (401) 277-7078

---- INDEX REFERENCES ----

COMPANY: ALLIANCEBERNSTEIN LP; FIRST SOUTHWEST CO; RHODE ISLAND PORT AUTHORITY AND ECONOMIC DEVELOPMENT CORP

NEWS SUBJECT: (Campaigns & Elections (1CA25); Funding Instruments (1FU41); Government Litigation (1GO18); Legal (1LE33); Maine Municipal Bonds (1MU58); Municipal Bonds (1MU39); Rhode Island Municipal Bonds (1MU80); U.S. Congressional Campaigns (1US07); U.S. Presidential Campaigns (1US04))

INDUSTRY: (Bonds (1BO97); Financial Services (1FI37); Fixed Income Investments (1FI12); Investment Management (1IN34); Securities Investment (1SE57))

REGION: (Americas (1AM92); Maine (1MA44); North America (1NO39); Rhode Island (1RH18); U.S. New England Region (1NE37); USA (1US73))

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OTHER INDEXING: (RHODE ISLAND ECONOMIC DEVELOPMENT CORP) (Antonio Afonso Jr.; Bernard Jackvony; Curt Schilling; Donald Carcieri; Paul Harley; Robert Murray; Robert Stolzman)

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May 25, 2012

Section: Local

Company-wide layoffs at troubled video-game firm ; 38 studios 'Economic downturn'

paul grimaldi; ANDY SMITH; katherine gregg

PROVIDENCE -- Curt Schilling's 38 Studios laid off all its employees on Thursday and Governor Chafee and other state officials said they are trying to minimize the taxpayers' cost of the apparent implosion of the Providence video-game developer.

Chafee and members of his staff met with the media Thursday afternoon to answer questions about what's gone wrong at the Providence company headed by the ex-Red Sox pitcher.

The governor asserted that his priority is protecting Rhode Island taxpayers, who are on the hook for paying off \$75 million in bonds issued by the Rhode Island Economic Development Corporation to fund 38 Studios. With interest payments, the bill could go up to \$102 million over eight years.

"I would gladly extend the life of the company if I had confidence that it would lead to profitability," Chafee said during a State House news conference. "It's not a good situation...."

"We'd all like to see the company succeed."

As the governor spoke, employees were emptying out the office of the faltering 38 Studios, after having been notified that the entire staff was laid off.

A notice the company e-mailed to its nearly 300 employees in Rhode Island, obtained by The Journal, states "The Company is experiencing an economic downturn. To avoid further losses and possibility of retrenchment, the Company has decided that a companywide layoff is absolutely necessary. These layoffs are non-voluntary and non-disciplinary. This is your official notice of layoff, effective today, Thursday, May 24th, 2012."

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A pair of industry websites also reported the layoffs yesterday Thursday afternoon.

"Curt Schilling's 38 Studios laid off all of their employees today," said the Polygon blog on The Verge. The blog attributed the information to "a source familiar with the company."

"38 Studios and Big Huge Games have both let go of their entire staffs," said the Joystiq site.

Big Huge Games in Maryland is a company that Schilling acquired after he first set out to develop video games. Big Huge Games had about 90 employees.

Employees leaving the company's six-story building on Empire Street in downtown Providence Thursday declined comment. Schilling could not be reached for comment.

Chafee and his advisers, meanwhile, said they knew nothing of layoffs at 38 Studios, even though they have met or talked with company representatives a number of times this week. That included contact Monday between Chafee and Schilling.

"There were no discussions of layoffs in any of my conversations," said Jonathan Savage, a Providence lawyer advising the governor.

The lack of definitive answers from 38 Studios, Chafee said, "is the crux of some of the communication issues we have with 38 Studios."

State officials said they were unaware of the company's dire financial situation, even though they may have been getting some financial statements from the company.

"Every indication I got was that things were going in accordance with the business plan," Chafee said.

Amid mounting questions about the future of 38 Studios, the Chafee administration made public, for the first time, a passel of documents, including the "project monitoring agreement" between 38 Studios and IBM that state economic development officials were counting on to provide critical information about the company's progress in meeting its financial and product development milestones.

It is unclear how much IBM was paid -- and out of what pool of money -- for producing detailed quarterly reports on the financial status of "Project Copernicus," including "Budget vs. Actual (expenses and headcount)." The pages that say "charges" at the top are blank.

But there is a clear point in time in summer 2011 when the EDC agreed to accept oral briefings instead of the lit-

any of documents IBM was originally supposed to provide, including "copies of drafts and final copies of all reports, memoranda, documents, correspondence, conclusions ... and other written manifestations of the work product produced by IBM."

38 Studios asked -- and the EDC agreed -- "to accept briefings from IBM ... in lieu of delivery of the IBM work product because of the substantial privileged and confidential information" they might contain, according to the modified agreement that then-EDC director Keith Stokes signed on Aug. 16, 2011.

It remains unclear why the EDC went along with this request. It is also unclear whether the EDC asked to see IBM's findings, as it still had a right to do.

The monitoring agreement was part of the deal that brought **Schilling's** company to Providence from Massachusetts in 2010.

The company released its first game, "Kingdoms of Amalur: Reckoning" in February to decent reviews and sales.

Chafee said the game failed at generating enough of a following to help 38 Studios out of its predicament. But, he admitted, it might have fared worse if it had been designed differently.

"If I meddled, there probably wouldn't be all this sex and violence in the game; it probably would have sold less," he said, in a light-hearted moment. Under the terms of the state's loan guarantee, 38 Studios received \$47.4 million to be used for the development of its second game, a multiplayer online game that has been code-named "Copernicus." When the EDC issued the \$75 million in bonds to raise that capital, it set aside the rest in accounts to pay the first two years of interest on the bond proceeds and to hold as reserve in case the company misses payments it's scheduled to start next year.

If **Schilling's** company misses payments on the bonds, the taxpayers could be responsible for up to \$102 million over eight years to pay back the bondholders. Officials are trying to lessen that potential cost.

"We're obviously working to make this the best deal for the taxpayers," said Rosemary Booth Gallogly, the state budget officer.

Moody's Investment Service on Thursday issued a report leaving intact its rating on the bonds the EDC issued in 2010 to back the 38 Studios loan.

Moody's said it is maintaining an A2 rating on the \$75-million bond issue. Moody's based its outlook on the state's "moral obligation" to pay the bonds.

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"The financial struggles of 38 Studios, a video-gaming venture, underscore the risks pertaining to economic development project financing by state and local governments," said Marcia Van Wagner, a Moody's analyst.

"The best outcome is that the state's moral obligation is not called on," Gallogly said.

She said if Schilling can raise private investment, he could also make the bond payments.

Beyond its immediate cash crunch, 38 Studios would need tens of millions of dollars to finish and maintain "Copernicus."

Otherwise, the state could sell new bonds with a lower interest rate, to pay off the 38 Studios bonds, which have rates ranging from 6 to 7.75 percent, according to Gallogly.

There are questions about whether the state could issue tax credits to help 38 Studios out of its immediate cash bind.

Chafee spokeswoman Christine Hunsinger said Thursday state officials are trying to determine whether 38 Studios is incorporated out of state, making it ineligible for millions of dollars in tax incentives it has applied for.

"It's part of the due diligence," Hunsinger said. "We don't have an answer yet."

Schilling's company isn't incorporated in Rhode Island but in Delaware as a limited liability company. It must be incorporated in Rhode Island to be eligible for tax credits under an incentive program for film companies and video-game studios.

Even though all the employees have been laid off, 38 Studios still exists as a legal, ongoing entity. There has been no bankruptcy filing.

On Thursday, there were multiple Twitter postings inviting laid-off 38 Studios employees to apply for jobs.

The state Department of Labor and Training said it will send in an emergency response team to the company on Friday to help workers make the transition from 38 Studios. Despite all the questions about 38 Studios, Chafee held out the prospect that something could be salvaged from what is now a shell of a company at One Empire Plaza in downtown Providence.

Governor Chafee talks about the status of 38 Studios during a news conference Thursday. Several department directors were on hand as well to field questions. The Providence Journal / Connie Grosch

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People in the 38 Studios office building on Empire Street in downtown Providence Thursday watch the media gathered below. The Providence Journal / Bob Thayer pgrimald@providencejournal.com (401) 277-7356 asmith@providencejournal.com (401) 277-7262 kgregg@providencejournal.com (401) 277-7078

---- INDEX REFERENCES ----

COMPANY: 10TACLE STUDIOS AG; INTERNATIONAL BUSINESS MACHINES CORP; MOODYS CORP; TWITTER INC; EASEL; RHODE ISLAND PORT AUTHORITY AND ECONOMIC DEVELOPMENT CORP; INTERNATIONAL BUSINESS MACHINES CORP

NEWS SUBJECT: (Bankruptcies (1BA08); Business Management (1BU42); Corporate Events (1CR05); HR & Labor Management (1HR87); Labor Relations (1LA21); Layoffs (1LA48))

INDUSTRY: (Consumer Electronics (1CO61); Consumer Products & Services (1CO62); Consumer Video Products (1CO02); Electronics (1EL16); PC, Video & Online Games (1PC44))

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OTHER INDEXING: (RHODE ISLAND ECONOMIC DEVELOPMENT CORP) (Chafee; Christine Hunsinger; Connie Grosch; Curt Schilling; Jonathan Savage; Keith Stokes; Marcia Van Wagner; Rosemary Booth Gallogly)

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